

cityconfidential

sorting the bulls from the bears

In This Issue

Vodafone

Logistics Dev. Group

QinetiQ

Speedy Hire

Plus

Aggressive Growth Portfolio

Monthly News Highlights



Dial in for a quick trading profit!

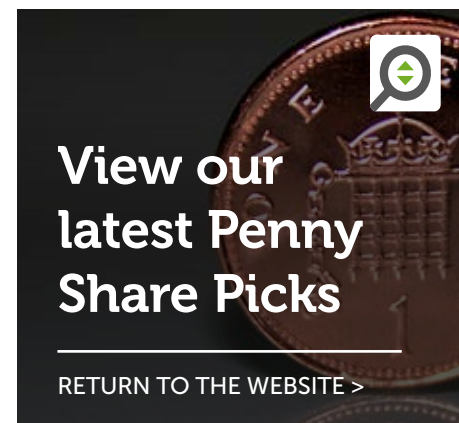
The share price of **Vodafone (65p)** has been in a steady decline for years now as its status as a growth stock has disappeared and it is now viewed more as a utility stock. As a result, the key factor for investors is the level of income that the shares produce as growth prospects are now limited.

As readers will probably be aware, Vodafone is the largest pan-European and African telecoms company, providing mobile and fixed services to over 300 million customers in 17 countries, whilst it also has partnership agreements for mobile telecoms in another 46 countries.

The company cut its dividend five years ago, since when it has paid 9 Eurocents a year to shareholders. This equates to around 7.75p per

share and so it can be seen that at the current share price the shares are yielding 11.9%. This is clearly a very attractive rate of return but also signifies that many investors believe that the dividend cannot be maintained at the current level and will be reduced further at some point. The result is that many investors are avoiding the shares which has seen the share price decline steadily. The group has high levels of debt which is also a negative for investors although it has been reducing this through a programme of disposals, the latest of which was the sale of the Spanish business for €5bn.

Although the share price was as high as 300p ten years ago, its more recent high was 140p at the start of last year. The current share price is the lowest in over 20 years and the key



point for investors is whether this is a good entry point. We believe that for the shares to have any meaningful rally there needs to be a catalyst such as a cut in the dividend payment. The market and investors hate uncertainty and so a reduction in the payment to a sustainable level would in our view be well-received.

On balance we believe that the recent weakness in the share price has been overdone. However, we are also not convinced that the shares have solid long-term prospects. Instead, we believe that there is a trading opportunity here and suggest buying the shares at 65p with a view to selling at 75p. That would represent a gain of 15% which we feel makes the trade worthwhile. **TRADING BUY.**



Take advantage of this discount!

It is not often that it is possible to buy shares in a company which stand at a significant discount to the underlying net asset value per share but which also have growth potential. The fact that the shares in question also have significant cash backing simply adds to their attraction!

The company in question is **Logistics Development Group (11.25p)**, an investment company with its shares traded on AIM. Regular readers may recall that we featured the company some time ago, but the recent weakness in the share price has provided investors with an opportunity to buy in.

The company was re-admitted to AIM in December 2020 as an investment company which aims to provide its shareholders with an attractive level of total return. It has a highly

focused investment strategy which aims to generate returns over the short to medium term. The company currently has investments in companies including Alliance Pharma, the AIM-listed pharmaceutical group; Finsbury Food, the bakery company currently in the process of being taken over for cash; Trifast, the industrial fasteners group and SQLI SA, a French based digital transformation group focused on ecommerce.

In addition to the shareholdings above, the company also has significant cash balances awaiting investment worth around £45m. The value of the investment portfolio is some £58m as well meaning that the net asset value per share is around 19p. Clearly the shares therefore stand at a significant discount to this, making the shares good value. However,

this has been the case for some time and there will need to be some sort of catalyst for this gap to close. The takeover of Finsbury Food will simply increase the group's cash reserves when it is completed and the group will then need to find other investment opportunities to reinvest this cash and that held already.

The shares in the portfolio are not expensive and could well increase in value thus increasing the net asset value per share even more. To try and reduce the large discount to the net asset value, the company is buying in its own shares although this is having little impact. Nevertheless, at some point the fundamental value of the company will be realised through a higher share price and so we rate the shares a **LONG TERM BUY.**

QQ.

305.4p BUY

QinetiQ – 305.4p

SECTOR - AEROSPACE & DEFENCE

Regular readers may remember that we have featured this defence technology company before, recommending its shares in October 2021 at a price of 282.4p. We subsequently sold the shares out of The Aggressive Growth Portfolio in February this year at a price of 350.6p as the share price seemed to be consolidating at around that level. The shares therefore gained over 24% in sixteen months whilst the value of the three dividends received during our ownership generated an additional return of 3.4%. The recently announced interim results have resulted in the share price falling back and we once again feel that the shares are in buying territory.

Activities

QinetiQ was formed in 2001 when the Ministry of Defence split its Defence Evaluation and Research Agency (DERA) in two, with the larger part being renamed as QinetiQ. The company was then prepared for privatisation and was floated on the stockmarket in 2006 with the shares being priced at 200p each. QinetiQ is now a leading science and engineering company operating in the defence and security markets. Its operations are mainly focused on three countries, the UK, USA and Australia and in the last financial year these accounted for 93% of revenue. The company employs around 8,500 people around the world and they are committed to creating new ways of protecting people and physical assets by ensuring that defence systems work as they should. The company's operations therefore include testing technologies, systems and processes to make sure that these meet operational needs and enabling customers to deploy new and enhanced capabilities with the assurance that these will work as expected. Thus, the operations of the group include providing targets for live-fire training exercises, advising on weapons technology, providing training for members of the armed forces and so on.

The company has split its operations into two divisions and these are as follows:

EMEA (Europe, Middle East and Australasia) Services (75% of 2023 revenue) – this in turn is split into three areas. UK Defence (44% of 2023 revenue) provides independent research, evaluation and training services, testing systems and equipment on complex aerospace programmes; UK Intelligence (23% of 2023 revenue) helps customers to respond to evolving threats based on the group's expertise in cyber security, secure communications networks and intelligence gathering and Australia (8% of 2023 revenue), which provides advice and testing and evaluation services together with airborne training and mission rehearsal services. The latter business also includes the group's operations in Canada and Germany although these are only small in the context of the group.

Global Products (25% of 2023 revenue) – this is a technology based division comprising two parts. The United States business (19% of 2023 revenue) provides technical advice, design and manufacture of innovative defence products specialising in robotics, autonomy and sensing solutions. The business was expanded in November 2022 with the acquisition of Avantus, an expert in cyber, data analytics and software development solutions to the US Department of Defense. Other Products and Solutions (6% of 2023 revenue) provides research services and bespoke technological solutions from intellectual property spun off from EMEA Services.

Financial

The financial year to 31 March 2023 saw revenue increase by almost 20% to £1.58bn (2022: £1.32bn), with underlying pre-tax profit increasing by 33% to £189.7m (2022: £142.2m). Earnings per share on the same basis rose to 26.5p (2022: 20.6p) whilst the dividend for the year was raised by 5.5% to 7.7p (2022: 7.3p). As can be seen from these figures, the year saw excellent growth and underlying performance across all metrics with strong cash flow at the group being a feature. Despite the strong cash flow, the group ended the year with net debt of £206.9m (2022: net cash £225.1m) due to acquisitions made during the year and high levels of capital expenditure to support the group's strategic growth ambitions. Clearly, the major investment was the purchase of Avantus for \$590m in cash. During the year, order intake at the group was £1.72bn (2022: £1.23bn).

In the six months to 30 September 2023, the growth in revenue continued with sales for the period increasing by 31% to £883.1m (2022: £673.4m). Although some of this increase was due to acquisitions, the company recorded organic revenue growth of 19%. Underlying profit before tax rose by 28.6% to £104.3m (2022: £81.1m) and earnings per share on the same basis were 17.5% higher at 13.4p (2022: 11.4p). The interim dividend was raised to 2.6p (2022: 2.4p) per share. Net debt at the end of the period had increased again to £273.8m (1 April 2023: £206.9m) although this is expected to reduce in the second half. Order intake for the period was £953m, a record for the group.

Outlook

The company is clearly performing well and the uncertain geopolitical climate is only helping to drive demand for the group's products and services. The issues in the Middle East and Ukraine have been well-documented, but there are increasing tensions in certain African countries whilst there is also uncertainty surrounding China. The formation of AUKUS in September 2021, the trilateral security partnership between Australia, the UK and US will also help QinetiQ as this is where its operations are mainly focused.

The group enters the second half of the financial year with a healthy order book and positive momentum and this looks set to continue going forward. The group is aiming to expand through a mixture of both organic growth and acquisition so that by 2027 it is generating revenues of £3bn, a significant increase over the current level. Given the growth seen at the group over recent years, this target looks attainable and yet the recent weakness in the share price has left the shares on a prospective p/e ratio of just 10.9x. Given the growth prospects we believe this is too low and a move back to the 2023 share price high of 380p would produce a gain of over 24% from the current level. Readers should **BUY**.



	Year Ending 31 March	Turnover (£bn)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 305.4p	2022	1.32	142.2	20.6	14.8	7.3	2.4
Market Capitalisation: £1.76bn	2023	1.58	189.7	26.5	11.5	7.7	2.5
2022/23 Share Price Range: 395p/250p	2024 (est)	1.87	195.2	28.0	10.9	8.2	2.7
Website: www.qinetiq.com							

Aggressive Growth Portfolio VIII

Another positive performance from the portfolio has seen it increase in value by 6.4% over the last month. Although there have been a couple of disappointing performers, notably **Halfords** and **TT Electronics**, there have also been strong performances from **Costain** (up by 26% over the month), **Ultimate Products** (up by 18%), **Marshalls** (up by 15%) and **Renold** (up by 14%). Thus the portfolio has comfortably beaten all the benchmark indices.

It has been a busy month for the constituents of the portfolio with a number of companies making announcements and these are **Renold**, **Halfords Group**, **TT Electronics**, **Macfarlane Group**, **Severfield**, **Bloomsbury Publishing**, **The Character Group**, **Norcros** and **Volex**. As usual there are updates on these and other companies either in the News Highlights

section or on the website.

In order to raise some liquidity for the portfolio, we have made two sales this month. Firstly, we have sold the holding of 750 **Aviva** at 431.2p. The shares were bought in April at 419p although the timing of the purchase was not ideal as they promptly fell back falling below 370p in September. A strong run recently has taken the shares to the highest level since March, and we have therefore taken advantage of this. The sale has realised net proceeds of £3,202 for a profit of just £13. We have also sold the holding of 3,000 **Macfarlane Group** at 112p following the underwhelming trading statement this month. This has raised net proceeds of £3,326 for a gain of £83.

Dividends have been received during the month from **Galliford Try** (£124) and **Bloomsbury Publishing** (£31) and following the investment into the two main recommendations this month there is just £35 left on deposit pending investment.

Performance summary						
		12 December 2023	7 November 2023		Gain/(Loss) %	
Portfolio Value		£62,409	£58,643		6.4	
FTSE 100 Share Index		7,542.77	7,417.76		1.7	
FTSE All Share Index		4,108.53	4,017.63		2.3	
FTSE AIM All Share Index		723.91	698.63		3.6	

Security		Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
500	Hargreaves Services*	264	1,334	445	2,225	280
12,000	Renold	25.1	3,042	34.1	4,092	20
2,000	Halfords Group	148.8	3,021	197.8	3,956	120
8,000	Costain	40.4	3,280	63	5,040	32
2,750	Ultimate Products	132	3,684	152	4,180	105
1,650	Galliford Try	197.8	3,313	227	3,746	155
2,250	TT Electronics	155.6	3,553	148.4	3,339	110
2,650	TI Fluid Systems	137	3,684	140	3,710	115
1,500	MPAC Group	221.5	3,356	210	3,150	185
5,600	Severfield	62.6	3,559	61.4	3,438	50
850	Bloomsbury Publishing	400	3,451	455	3,868	325
1,250	The Character Group	270	3,409	285	3,563	225
2,150	Norcros	150	3,273	169.5	3,644	130
1,700	Marshalls	215	3,710	247	4,199	175
1,200	Volex	285.5	3,477	301	3,612	230
1,150	QinetiQ	305.4	3,565	305.4	3,512	245
10,000	Speedy Hire	31	3,146	31	3,100	26
£35	Cash	-	-		35	
TOTAL					£62,409	

Start date: 19 January 2021 with £50,000. Cash includes dividends received of £3,997 *after part disposal.

SDY

31p

SPEEDY HIRE

SECTOR - SUPPORT SERVICES

RECOMMENDATION - BUY

The publication of the group's interim results last month has seen the share price of the company fall back from just short of 38p to 31p. This decline of some 18% in the share price looks harsh to us even though the results showed how challenging trading is at the moment. The group continues to expand, and it is also extending its partnership with B&Q which should provide the impetus for further growth. A better performance is expected in the second half of the year and the purchase of 200,000 shares by the finance director and his wife adds to our confidence in our recommendation.

Speedy Hire is the UK and Ireland's leading provider of tools and equipment for hire, supplying plant such as dumpers and cranes, pumps, lighting, welding equipment and so on. The company operates from over 180 depots in the UK and Ireland, and it has a wide range of customers in the construction, infrastructure, industrial and support services markets. It also supplies local tradesmen and retail customers. It also has a joint venture in Kazakhstan.

The company has recently announced its interim results for the six months to 30 September and despite the challenging trading conditions revenues for the period only declined by 2.9% to £208.5m (2022: £214.8m). Adjusted pre-tax profit fell by 56% to £5.9m (2022: £13.4m) with the decline due to higher interest rates, a disappointing performance from the joint venture in Kazakhstan and investment in the group's Velocity transformation and growth strategy. Earnings per share on the same basis were 0.98p (2022: 2.19p) although the interim dividend was maintained at 0.8p per share. Net debt at the end of the period was £89.6m (1 April 2023: £92.4m) despite investing £17.6m in the hire fleet during the period.

The share price of the company has fallen from 63p at the start of last year and with a better performance expected in the second half and the benefits of recent acquisitions still to be felt 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: 31p	2022	387	29.1	4.24	7.3	2.2	7.1
Market Capitalisation: £159m	2023	441	30.3	5.25	5.9	2.6	8.4
2022/23 Share Price Range: 63p/27.75p	2024 (est)	435	30.0	5.20	6.0	2.6	8.4
Website: www.speedyservices.com							

News Highlights

Norcros



169.5p 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.

The Character Group – 285p

In the year to 31 August, revenues fell by 30% to £122.6m with underlying pre-tax profit down by 54% to £5.2m. Earnings per share on the same basis were down 46% to 20.15p, but the dividend for the year was increased to 19p per share from 17p last year. As we explained in our original feature in October, the company has suffered from the downturn in consumer spending in line with its competitors, but the second half of the year saw a much better performance helped by the strength of the group's product portfolio. This includes Peppa Pig and Goo Jit Zu with other new ranges to be introduced at the 2024 London Toy Fair. The business continues to have a strong balance sheet with net cash at the end of the year of £9.6m (2022: £20.0m) and this helps to provide reassurance to investors. Although short-term trading conditions remain tough, the company is expecting an improved performance in the current financial year and a recovery in profits to £7.5m for earnings per share of 28p would put the shares on a p/e ratio of around 10x. The shares remain a **BUY**.

Voilex – 301p

The cable and power supply manufacturer has announced interim results for the six months to 30 September and these have revealed an 11.2% increase in revenue to \$397.5m with underlying pre-tax profit increasing by 15.5% to \$33.6m. Earnings per share on the same basis were 3.5% higher at 14.9 cents and the interim dividend was raised 7.7% to 1.4p. Net debt excluding operating leases rose to £140.6m from \$76.4m at the start of the period but this was mainly due to the acquisition of Murat Ticaret in August for \$195m. The integration of the latter is progressing well with this providing a number of cross-selling opportunities. These are very solid results which have benefited from the diverse customer base so that the company is not over reliant on any one sector or customer.

Looking forward, the latest acquisition, the group's largest to date, brings increased diversification and opens up new markets for the group and a confident statement from the company adds to our confidence in prospects. We maintain our forecast of underlying pre-tax profits for the year of \$72m for earnings per share of 36 cents. This would put the shares on a prospective p/e ratio of around 10.5x. The shares remain a **BUY**.

Norcros – 169.5p

The leading supplier of branded products for the bathroom and kitchen markets has announced its interim results covering the six months to 30 September. Despite the difficult market conditions, the company has performed pretty well with revenue for the period falling by 8.3% to £201.6m and underlying pre-tax profit falling by just 9% to £18.1m. Diluted underlying earnings per share were down 12.4% at 15.6p and the interim dividend was maintained at 3.4p per share. These were solid results with the UK increasing revenue although sales in South Africa declined by 11% during the period due to energy disruption. The company continues to gain market share in the UK helped by its strong brand portfolio including Triton and further progress seems likely in the second half. The company looks on track to meet our forecast for the year to 31 March 2024 of adjusted pre-tax profits of around £36m for earnings per share of 30.2p. On a p/e ratio of just 5.6x and yielding 6.1% the shares look cheap. **BUY**.

Halfords – 197.8p

In the 26 weeks to 29 September, revenues rose by almost 14% to £873m, with underlying pre-tax profit increasing by almost 16% to £21.3m. Earnings per share on the same basis were over 13% higher at 7.6p and the interim dividend is maintained at 3p per share. At the end of the period the group had net debt of £47m, up from £1.8m at the end of the last financial year. The company's businesses in needs-based categories, such as repairing and servicing motor vehicles, did well but those activities involving discretionary spending such as cycling found trading more challenging. The latter was not unexpected

given the pressure being felt by consumers. The company expects full year results to be weighted towards the second half although underlying pre-tax profits may now be nearer £50m than the £53.5m previously expected. Following the announcement, two directors have purchased shares in the company, spending over £87,000. We believe this adds weight to our recommendation of **BUY**.

Renold – 34.1p

The AIM-listed supplier of industrial chains and power transmission equipment has reported excellent results for the six-month period to 30 September. Revenues for the period were up almost 8% at £125.3m, but adjusted pre-tax profit increased by an impressive 54.8% to £11.3m (2022: £7.3m). Earnings per share on the same basis were up 40.7% at 3.8p (2022: 2.7p) although again there is no interim dividend. Net debt fell during the period to £28.3m (31 March 2023: £29.8m) despite spending £4.8m on acquisitions. These are clearly excellent results with revenues increasing in all geographic regions whilst gross margins also increased. At the end of the period the group's order book was £83.6m, a higher level than normal. The outlook for the group looks very promising and although the shares have moved up since originally being tipped at 25.1p we believe they have further to go. **BUY**.



Want more
tips, ideas
& insight?

[RETURN TO THE WEBSITE >](#)





cityconfidential is published by Independent Financial Publications, which is authorised and regulated by the Financial Conduct Authority. Independent Financial Publications has taken every step to ensure the accuracy of the information contained in this publication but cannot accept any liability for any errors or any loss arising from the use of this publication or its contents. Independent Financial Publications or individuals associated with it may have a position or engage in transactions in any of the securities mentioned. The price of investments and the income derived from them can fall as well as rise and investments in smaller companies have a higher risk factor. Past performance is not necessarily a guide to future performance. The investments in this publication are not suitable for everyone. Before taking any action you should obtain expert advice from your adviser.

VAT No: GB 607 1818 48

Independent Financial Publications, 1 Skipton Road, Ilkley, West Yorkshire, LS29 9EH

Designed and published by Westbrook Agency © 2023
www.westbrookagency.co.uk



Thanks for reading
Next issue out
11th January

[RETURN TO THE WEBSITE >](#)

