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sorting the bulls from the bears

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APH 38.9p

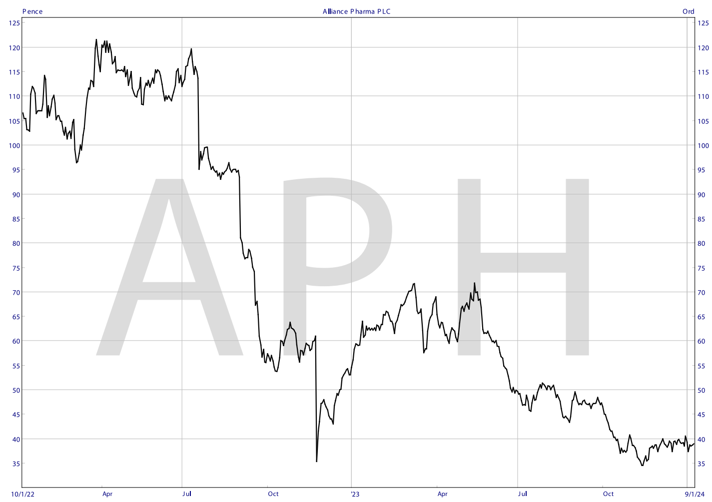
ALLIANCE PHARMA

SECTOR - AIM - PHARMACEUTICALS
RECOMMENDATION - BUY

Shares in Alliance Pharma are currently standing at around the lowest point since 2015 and we believe that this is a good entry point for investors. The decline in the share price from 122p two years ago has been caused by a number of factors. These include a profit warning in 2022 due to problems in China, a key market for the business, and the fact that the company has been fined for anti-competitive practices by the Competition and Markets Authority (CMA). The company appealed against the CMA decision with the result of this originally expected last year although the outcome is still unknown. However, the result of the appeal should be known in the next few months, whilst most of the issues relating to China and general trading have been resolved.

Alliance Pharma is an international consumer healthcare company which holds the marketing rights to around 80 consumer healthcare brands and prescription medicines which are sold in more than 100 countries. The company employs almost 300 people from its eight offices around the world in Europe, Singapore, China and the USA. This geographic presence is enhanced by a broad network of international distributors. The brands sold by the group include Kelo-Cote scar treatment gel, menopause treatment Amberen and anti-dandruff shampoo Nizoral.

The latest results for the group are the interim results for the six months to 30 June 2023. These revealed a 1% increase in revenue to £82.4m, although underlying pre-tax profit fell by 48% to £10.3m. Earnings per share on the same basis were down 46% to 1.58p and the interim dividend has been cut. The period suffered from destocking of Kelo-Cote in China with temporary manufacturing delays affecting sales of other products. However, these issues have now been resolved and the second half of the year is expected to have seen a return to revenue and profit growth.



It is clear that the results for 2023 are heavily dependent on a recovery in the second half of the year although going forward into 2024 there are more grounds for optimism. There should be stronger growth from Kelo-Cote in China as well as elsewhere, whilst other products should also produce increases in sales now that regulatory and manufacturing issues have been largely resolved. The CMA appeal will continue to deter some investors until a result is announced but looking at the fundamentals of the business, we believe the shares are undervalued and rate them as a BUY with a share price target of 70p.

Share Price: 38.9p
Market Capitalisation: £210m
2022/24 Share Price Range: 122p/34.5p
Website: www.alliancepharmaceuticals.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	172	30.3	4.3	9.0	1.776	4.6
2023 (est)	182	31.6	4.5	8.6	0.9	2.3
2024 (est)	192	37.0	5.4	7.2	0.9	2.3

DGE 2767.5p

DIAGEO

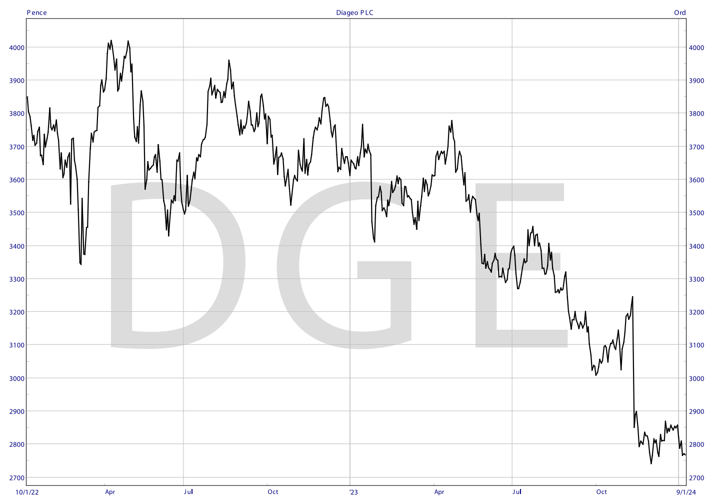
SECTOR - FOOD & BEVERAGES
RECOMMENDATION - BUY

The surprise trading update in November, which revealed that sales in Latin America and the Caribbean would fall sharply this year, caused the share price of drinks group Diageo to fall from around 3250p. A capital markets day, which followed shortly afterwards, did little to reassure investors and the share price has been languishing at around the 2750p/2800p level ever since. The shares now stand at the lowest level for three years having fallen by almost 22% in 2023 and the prospective p/e ratio of 15.2x is the lowest in a decade. We believe that the shares have significant recovery potential.

As many readers may know, Diageo was formed in 1997 through the merger of quoted companies Guinness and Grand Metropolitan. The company still produces and sells Guinness, but Diageo is now one of the world's largest drinks companies, with over 200 brands which it sells in almost 180 countries. The company's brands include well-known names such as Johnnie Walker, the world's best-selling Scotch whisky, gins such as Gordon's and Tanqueray, Smirnoff Vodka, Baileys and Captain Morgan.

The group has an enviable track record of growth over many years and the last financial year continued this trend. Revenue in the year to 30 June 2023 rose by over 10%, with adjusted pre-tax profits increasing by over 12% to £5.36bn. Adjusted earnings per share increased by 7.6% to 163.5p and the dividend for the year was raised by 5% to 80p per share.

The company took the stock market by surprise in November when it issued a trading update saying that organic net sales in the Latin America and Caribbean region could decline by 20% compared with the previous year. However, it is important to put this into context as the region only accounts for 11% of group revenue, and the other four geographic regions in which the group operates continue to grow. The share price fall following the announcement was largely due to concerns that the shortfall in sales had not been flagged earlier and worries that other regions could also see a decline in sales going forward. However, in our view these worries are overstated.



Diageo has a very strong track record and has an enviable portfolio of brands which will stand it in good stead going forward. Sales are expected to recover in the second half of the financial year and the group will continue to explore new markets and seek to acquire new brands in growing drinks markets such as tequila. The market for premium drinks continues to grow and the group is set to benefit from this. The shares have fallen from 4100p two years ago and even last July were around 3450p – they are a BUY.

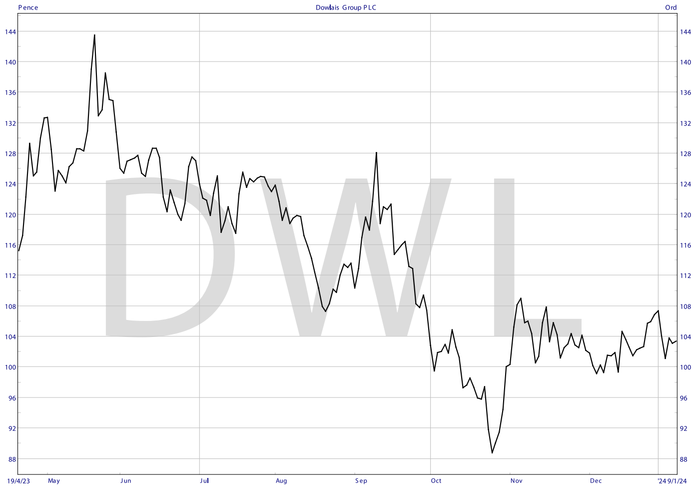
Share Price: 2767.5p
Market Capitalisation: £62.6bn
2022/24 Share Price Range: 4100p/2740p
Website: www.diageo.com

Year Ending 30 June	Turnover (£bn)	Adjusted Pre-Tax Profit (£bn)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	15.5	4.78	151.9	18.2	76.18	2.8
2023	17.1	5.36	163.5	16.9	80.00	2.9
2024 (est)	17.5	5.60	182.0	15.2	82.00	3.0

DWL
103.35p

DOWLAIS GROUP

SECTOR - INDUSTRIAL ENGINEERING
RECOMMENDATION - BUY



Dowlais Group is a UK-based specialist engineering group focused on the automotive sector. The company was previously part of Melrose Industries, before it was demerged in April last year. Shares in the company started trading at around the 115p level, although they quickly moved up to 143p as investors snapped up the stock. Since then, the share price has declined steadily, hitting a low of 89p in October. Although the share price has subsequently rallied, the shares remain well below last year's high point and stand on a very modest p/e ratio and attractive dividend yield.

Dowlais consists of three businesses which were originally part of GKN, a long-established engineering group. The largest of these is GKN Automotive, the global market leader in automotive drive systems and the trusted partner for over 90% of automotive global OEMs. Operating from 47 manufacturing facilities in 17 countries, the company's products are used in internal combustion engines as well as electric vehicles and hybrids. GKN Powder Metallurgy is a global market leader in both high precision powder metal parts and in the production of metal powders – powder metallurgy is the process used to create parts by fusing metal powders through the application of heat. The use of powder metal over conventional metal can have various benefits. GKN Hydrogen is an early-stage growth business that is looking to utilise proprietary metal hydride technology to store and secure hydrogen in a safe, compact and green manner.

In the six months to 30 June, adjusted revenue at the group rose 12% to £2.83bn, with adjusted pre-tax profits increasing by 28% to £139m helped by an increase in margins. Earnings per share on the same basis emerged at 7.2p and an interim dividend of 1.4p per share was declared. A trading statement in November covering the four months to the end of October confirmed that trading had continued to be strong with orders in GKN Automotive being particularly encouraging. Despite strike action in the USA the group remains on track to meet expectations for the year.

We believe that shares in the company are undervalued and, with operating margins continuing to increase, so will profitability. A recovery in the share price to the high of last year would represent a gain of almost 39%, but we believe the shares can do better than this and putting them on a prospective multiple of 14x 2023 earnings gives a share price target of 182p. BUY.

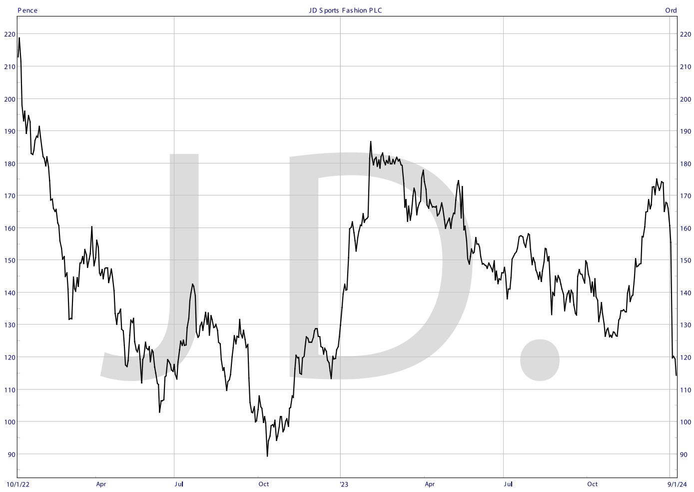
Share Price: 103.35p
Market Capitalisation: £1.43bn
2023/24 Share Price Range: 143p/89p
Website: www.dowlais.com

Year Ending 31 December	Turnover (£bn)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	5.24	212	-	-	-	-
2023 (est)	5.45	250	13.0	8.0	3.9	3.8
2024 (est)	5.75	285	14.8	7.0	4.4	4.3

JD.
114.35p

JD SPORTS FASHION

SECTOR - RETAILERS
RECOMMENDATION - BUY



Shares in JD Sports Fashion plummeted last week when the company issued a profit warning due to a combination of weak consumer demand and adverse weather conditions. As a result, the company reduced its guidance for adjusted pre-tax profits for the year that ends this month to around £925m as opposed to the £1.04bn previously expected. This reduction of some 11% in expectations was met with a 23% decline in the share price on the day and we believe this fall has been overdone. Whilst in the short term the shares are likely to remain under pressure, it is worth remembering that they were trading at 174p on the last trading day before Christmas and so it is clear that there is significant recovery potential going into 2024.

JD Sports was founded in 1981 by John Wardle and David Makin (hence the name JD) and originally operated from a single shop in Bury, Greater Manchester. However, the company has now grown to such a level that on 25 November 2023, it had 3,377 stores worldwide. As the name implies, the company is a leading, global omnichannel retailer of sports fashion brands. Apart from operating in the UK and Ireland, the company has a significant presence in both Europe and North America, whilst it also has a modest presence in Asia. In total, the group has operations in almost 40 territories with over 75,000 employees. The company sells leading brands such as Nike, adidas and The North Face.

In the most recent results, which cover the 26 weeks to 29 July 2023, revenues rose by 8.3% to £4.78bn, although adjusted pre-tax profits declined by 2.6% to £373.5m. Adjusted earnings per share fell by 11.7% to 4.62p and the interim dividend was raised to 0.30p (2022: 0.13p). The company ended the period with net cash of £1.28bn.

The trading statement issued last week covered the 22 weeks to 30 December and this showed like-for-like revenue growth of 1.8%. This was below expectations with sales being affected by the milder weather from the second half of September, whilst the peak trading season saw more promotional activity than anticipated due to weak levels of consumer spending.

The reduced profit expectations for the year are more than reflected in the share price in our view with the shares standing on a low p/e ratio and it is also worth bearing in mind the strong net cash position. Taking that into account the shares look very cheap, and we therefore rate them a BUY with a share price target of 155p.

Share Price: 114.35p
Market Capitalisation: £5.9bn
2022/24 Share Price Range: 218p/89p
Website: www.jdplc.com

Year Ending 31 January	Turnover (£bn)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	8.6	947	12.8	8.9	0.35	0.3
2023	10.1	991	13.4	8.5	0.80	0.7
2024 (est)	10.6	925	12.4	9.2	0.90	0.8

Aggressive Growth Portfolio VIII

As regular readers will be aware, this portfolio was wound up last month as it had been in existence for the usual three-year timescale. We therefore thought that it was worth reviewing the performance of the portfolio over its life and comparing this to the benchmark indices.

The table below shows the details of the portfolio performance since it was launched on 19 January 2021. Yet again, the Aggressive Growth Portfolio has continued its amazing run of success with it posting a gain of 24.8% over the period. As can be seen from the table, this is significantly better than any of the benchmark indices, with the most notable feature being the decline of 38.7% in the FTSE AIM All Share Index. This now stands at close to its lowest point since the pandemic, which itself was the lowest point since 2016. It would be no surprise therefore to see a sharp rally in this Index in 2024.

Despite the fact that the portfolio increased in value by 24.8% over its life, we have to say that we are disappointed with this performance, given the fact that the previous portfolio rose in value by 54.6% over its three-year life and the one before that rose by 48.5%! On both of the latter occasions the portfolios significantly outperformed the benchmark indices and so as we launch the Aggressive Portfolio IX, there is some pressure to keep up this record.

Performance summary

	12 December 2023	19 January 2021	Gain/(Loss) %
Portfolio Value	£62.409	£50,000	24.8
FTSE 100 Share Index	7,542.77	6,712.95	12.4
FTSE All Share Index	4,108.53	3,793.91	8.3
FTSE AIM All Share Index	723.91	1,181.13	(38.7)

Aggressive Growth Portfolio IX

Following on from the closure of the Aggressive Growth Portfolio VIII, we are now launching the latest portfolio, and this will follow the same well-known format as before. The portfolio will start with capital of £50,000 and will run for three years. We assume that we are paying notional commission on transactions of 1% and also stamp duty of 0.5% where applicable.

Given the relatively disappointing performance of the last portfolio, we are expecting to be much more aggressive in our management of the portfolio this time round and so the number of holdings at any one time may be less than has been the case in the past. However, sometimes this is easier to say than to do and so we will just have to see how we go on.

We have started off the new portfolio with the purchases of all four of the shares featured in this issue as these are our picks for 2024. Rather unusually for us, we have included in the selections two constituents of the FTSE 100 Share Index, but we do believe that in each case the recent fall in the share price has been overdone thus presenting a very attractive buying opportunity.

There is only one company in the initial selection from AIM, although given the very poor performance of this market over recent months we would expect many of our future tips to come from here. There seems to be a general understanding that whilst the overall UK market looks cheap compared to some of its overseas counterparts, the UK smaller company sector is cheaper still and this is being demonstrated by the fact that many companies are either going private or being taken over and we expect this trend to continue.

We are looking forward to running another successful portfolio over the coming three years and hope that our subscribers will benefit from this too!

Performance summary

	9 January 2024	-	Gain/(Loss) %
Portfolio Value	£49,727	-	-
FTSE 100 Share Index	7,683.96	-	-
FTSE All Share Index	4,196.15	-	-
FTSE AIM All Share Index	752.66	-	-

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
180	Diageo	2767.5	5,056	2767.5	4,982	2400
4,375	JD Sports Fashion	114.35	5.078	114.35	5,003	90
4,825	Dowlais Group	103.35	5,062	103.35	4,987	88
12,500	Alliance Pharma	38.9	4,911	38.9	4,862	30
£29,893	Cash	-	-		29,893	
				Total	£49,727	

Start date: 9 January 2024 with £50,000.

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.

Hargreaves Services – 405p

The industrial and property group has announced a trading update covering the six months to 30 November. This presents a rather mixed picture, with strong trading at the Services business, thanks to projects such as HS2, offset by disappointing trading at the German joint venture commodity trading business, HMRS. Although the latter is expected to have made a loss in the first half of the financial year, it should make a profit over the full year although this is expected to be much less than previously expected. However, the slowdown in activity has released cash and HMRS has therefore been able to return £8m of surplus cash to the group. Going forward HMRS is expected to pay £7m per annum back to the group which is clearly a positive. Hargreaves Land has seen sales slow although in August the business sold 20 acres of land for £18m to Avant Homes. The transaction is expected to complete this month with the cash received in four instalments over three years. As a result of the strong cash flow the group intends to pay a total dividend of 36p for the year, an increase of 70% over the 21p payout last year. Clearly, this puts the shares on a dividend yield of over 8.8% and the shares are therefore a BUY.

Currys – 49p

The electrical retailing group has announced its interim results for the half year to 28 October 2023 and these have revealed a 7% drop in revenue to £4.16bn as consumer spending came under pressure. The group's adjusted loss before tax was similar to the same period last year at £16m. Net debt at the end of the period was £129m, up from £97m at the start of the period, although the forthcoming sale of the group's Greek business will raise net proceeds of £156m. This is expected to conclude in the first quarter of 2024. Trading since the end of the period has been in line with expectations and the second half will obviously benefit from Black Friday and the effect of Christmas. The group's business in the Nordics has suffered from weak demand although this is now recovering. The group should end its financial year in a net cash position if the Greek disposal goes through as expected. Some recovery in the Nordics business combined with further positive progress in the UK and Ireland should also lead to an improvement in profitability. We believe the shares should have further to run as trading at the company improves. Continue to BUY.

Tandem Group – 145p

The sports and leisure products distributor issued a disappointing trading update ahead of its year end of 31 December with revenues for the year now expected to be between £22m/£23m. This is likely to lead to a pre-tax loss for the year of between £0.9m and £1.3m. The domestic sales market has been disappointing with consumers continuing to tighten their belts and many of the group's retail customers reported tough trading in the run-up to Christmas and so had run down stock levels as a result. One positive has been that sales of bicycles remain strong with the group's new range of electric bikes helping the growth in sales. Although the results are disappointing, the company retains a strong balance sheet, and the company has also secured three new national retailer accounts which are a significant achievement for the group and will help growth in 2024. The share price fell back on the announcement to its lowest level since the pandemic in March 2020 although it has recovered some ground since then. However, any recovery in consumer spending will benefit the group and the shares look set for recovery in 2024. BUY.

The Character Group – 296p

The AIM-listed toys and games group has announced its results for the year to 31 August 2023 which have come in slightly better than we expected. Revenues for the year 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 just over 10x. The shares remain a BUY.

Abingdon Health – 10.5p

The company has issued a positive trading update at its AGM confirming that revenues in the six-month period to 31 December will be significantly higher than the same period last year. The group is seeing growth in the lateral flow market through both direct sales and also its distribution platform. Another trading update will be issued this month, but the company is focused on reducing its cash burn and moving to a positive cash flow position. The shares remain a SPECULATIVE BUY.

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