

cityconfidential

sorting the bulls from the bears

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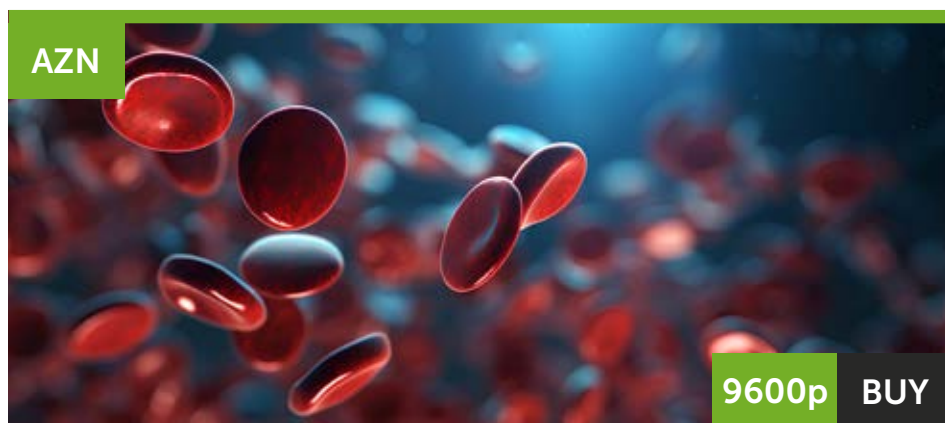
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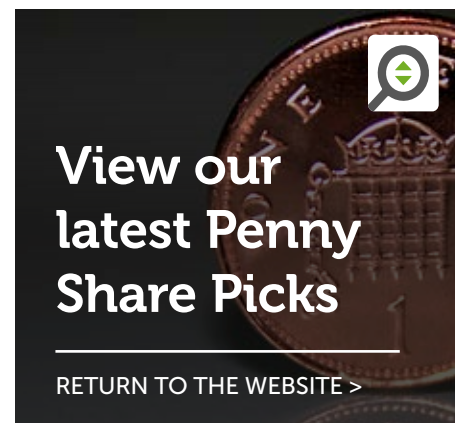
Try this medicine for growth

As regular readers will know, we rarely feature stocks in the FTSE 100 Index in the newsletter as we feel that we should be focusing on smaller companies which we think are overlooked and undervalued. However, there are occasions when large company stocks also appear to offer good value and we believe that we have identified one of these in **AstraZeneca (9600p)** following the recent fall in the share price of the company.

As readers will be aware, the company is one of the largest constituents of the FTSE 100 Share Index with a market capitalisation of almost £150bn. The company was formed in 1999 through the merger of Swedish group Astra and the UK-based Zeneca and it is now

a global pharmaceutical company with its main focus being on drugs to beat cancer and heart disease, although it also has treatments in many other areas. The group has grown significantly over the years helped by its strong research and development capability which has produced a number of important drug discoveries.

The group has recently announced its annual results for 2023 and these disappointed analysts with the results that the shares have fallen sharply. This is despite the fact that revenues for the year were up 3% at \$45.8bn. Some 37% of revenue was generated from oncology with 23% from CVRM (cardiovascular, renal and metabolic) treatments. Pre-tax profits



increased by 175% to \$6.9bn and core earnings per share were \$7.26, up 9% on the previous year. The company expects growth in revenues and earnings per share in 2024 and so we were surprised by the share price reaction. The share price now stands at its lowest level in almost two years and in the meantime it has been as high as 12300p. We believe that the share price fall has been overdone and that the share price will recover going forward. How long this will take is clearly hard to say, but we believe that now is a good entry point for long-term investors whilst short-term traders may want to take a punt on the shares with a run up to the six-month high of 11200p representing growth of over 16% if it can be achieved. **BUY.**



Pets are not just for Christmas!

Over the last few years many companies in the UK retail sector have struggled as they have been hit by online trading, high levels of rent and business rates and of course the fact that the UK consumer has also been under considerable pressure. One company that has bucked this trend to a degree is **Pets at Home Group (284.6p)** as the company has benefited from the British obsession with their non-human companions! The company has therefore been able to increase its revenues and underlying pre-tax profits over recent years and the shares also produced excellent returns with the share price peaking at 520p in 2021. More recently the share price has fallen back, and we believe this has provided a buying opportunity.

The company was founded in 1991 with

one store in Chester although it has grown significantly since then and it now operates over 450 pet care centres, 339 grooming salons and over 440 veterinary practices. In the latest financial year to 31 March 2023, group revenue had grown to £1.4bn with underlying pre-tax profits being £136.4m. Underlying earnings per share were 22.8p and a total dividend of 12.8p per share was paid.

The company issued a trading statement recently covering the 12 weeks to 4 January and although this revealed another increase in revenues at the group, these were below expectations. The shortfall came from the group's retail operations where spending on discretionary accessories such as bedding, harnesses and the like was lower than expected. The company has therefore been

forced to cut guidance for the financial year to 31 March 2024 with pre-tax profits of £132m now expected. This is only marginally less than last year and so if earnings per share emerge at around 22p the shares are on a prospective p/e ratio of just under 13x. The company is also expected to end the year in a net cash position.

Although the company has encountered some short-term challenges to trading, it has a strong market position with 24% of the pet care market whilst its veterinary business is the largest branded business in the UK. It seems likely that the next financial year will see a recovery in the group's fortunes and a recovery to the 398p level seen last July would represent growth of 40%. **BUY.**

BILN



Billington Holdings – 415p

SECTOR - AIM - CONSTRUCTION

Shares in **Billington Holdings**, one of the UK's leading structural steel and construction safety solutions specialists, ended 2023 strongly closing the year at 470p. The surge in the price over the final weeks of last year followed a positive trading statement in November which revealed that results for 2023 were expected to be above previous expectations. The first half of 2023 saw the group produce record revenues and profits and this momentum has continued into the second half of the year. As a result, profit forecasts for the group were increased with the share price rising accordingly. The decline in the share price in 2024 has left the shares trading on a very modest prospective p/e ratio of just 4.9x and a yield of 4.8%. With a strong balance sheet boasting significant net cash balances the shares are cheap.

Activities

Billington Holdings is a UK based group of companies focused on structural steel and engineering activities throughout the UK and Europe. The group operates through a number of subsidiary companies as follows: Billington Structures Limited is one of the UK's leading structural steelwork contractors capable of delivering projects from simple building frames to complex structures in excess of 10,000 tonnes. The company has two facilities in Barnsley and one in Bristol and can process over 50,000 tonnes of steel per annum. Peter Marshall Steel Stairs Limited is based in Leeds and this is a specialist designer, fabricator and installer of bespoke steel staircases, balustrade systems and secondary steelwork. The company can deliver stair structures for the largest construction projects and operates in a number of sectors. It has a strong market position being one of the largest companies in its sector. Specialist Protective Coatings Limited was formed in March 2022 and this is focused on surface preparation and the application of protective coatings for products across a number of sectors. As well as serving other companies within the group, this also provides its specialist services to external customers. Easi-Edge Limited is a leading site safety solutions specialist providing edge protection and fall protection systems for hire within the construction industry. Thus, the company supplies edge protection barriers and associated safety solutions to minimise the risk of working at height. Hoard-it Limited provides site hoarding, fencing systems and branding systems for use on construction sites – these can be mesh or solid sections with the latter able to be printed panels advertising the contractor or development.

Financial

The most recent results cover the first six months of 2023. Revenues for the period were a record for the group at £60.15m, an increase of 30.2% over the previous year's figure of £46.19m. Adjusted pre-tax profit for the period was also a record at £4.96m, over three times the previous year's figure of £1.47m. Earnings per share were also over three times the previous year's 8.7p at 28.8p. There was no interim dividend in line with the policy of recent years. Net cash at the end of the period was £10.82m, a slight decline on the balance of £11.63m at the start of the period. However, the group had significant working capital needs due to the increase in business with higher levels of stock and work in progress and an increase in the level of debtors.

These were obviously very good results with all the group's businesses performing well as the markets in which they operate continued to recover from disruptions caused by the pandemic. Billington Structures continued to operate at almost full capacity with benefits being seen from increases to capacity following recent efficiency and process improvements, driven by investment in capital equipment and people. A reduction in some raw material prices also helped margins. Although there has been a slowdown in the development of both industrial warehouses and office buildings the company continues to win contracts in these areas whilst it is busy in other areas such as energy from waste, high-tech manufacturing, infrastructure and data centres. Peter Marshall Steel Stairs also performed well undertaking work for Billington Structures as well as third parties. Specialist Protective Coatings operated at almost full capacity and is now trading profitably whilst it has also expanded its on-site painting facility to enable it to be a one-stop shop for the painting requirements of the structural steel sector. Utilisation rates at Easi-Edge were lower than those seen pre-Covid due to the limited number of commercial office developments currently being undertaken. Hoard-it had a strong first half seeing significant growth helped by a number of new projects, whilst it also expanded its graphics capability Brand-it, which is a margin enhancing product and which was a catalyst for this strong performance.

Outlook

The company issued a positive trading statement in mid-November confirming that the strong trading seen in the first half had continued with a number of good quality orders being received and increased volumes being delivered. The group continues to benefit from the improved manufacturing efficiencies from its capital investment programme across all of the group's production facilities. Thus the momentum gained during the first half of 2023 has continued and revenue and profit expectations have been increased as a result. Group revenues for the year are now expected to be in the order of £125m with adjusted pre-tax profit likely to emerge at £13.3m. Earnings per share should rise to 83.9p and the dividend should be increased to at least 20p per share. The group should also end the year with significant net cash balances. Given the strength of the balance sheet, the low p/e ratio and attractive dividend yield we believe that the shares are too cheap, and we therefore rate them as 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: 415p	2022	86.6	5.8	39.1	10.6	15.5	3.7
Market Capitalisation: £53.5m	2023 (est)	125.0	13.3	83.9	4.9	20.0	4.8
2023/24 Share Price Range: 470p/278p	2024 (est)	130.0	13.5	86.0	4.8	25.0	6.0
Website: www.billington-holdings.plc.uk							



Aggressive Growth Portfolio IX

We have to report that the first month of the new Aggressive Growth Portfolio IX has been a little disappointing, with this falling in value by 2.5%. As can be seen from the table below that means that the portfolio has underperformed all of the benchmark indices although compared with the FTSE 100 Share Index and the FTSE All Share Index the underperformance has only been marginal.

The most disappointing facet of the portfolio has been the fact that we have already lost one of our tips from last month as its share price has fallen through the stop-loss limit. Thus, we have had to sell the holding of 4,825 Dowlais at a share price of 88p. This has raised net proceeds of £4,204 and realised a loss of £858. This is frustrating but it is our fault as we set the stop-loss at too high a level. It is also annoying as we think that

at the current share price the shares are too cheap! With full year results for 2023 set to be announced on 21 March that will be when we find out whether they are cheap or not!

As we have so much cash still to invest, we have not only purchased shares in the two main companies featured this month, but also those companies tipped on page 2. This may become a feature going forward but it will depend on the available cash in the portfolio at any given time. However, we are looking to become more aggressive in the way we run the portfolio and so there may well be more transactions than there have been in the past.

After making the investments just referred to there is a balance of £13,857 left in cash to carry forward which will be available to invest next month.

Performance summary

	13 February 2024	9 January 2024	Gain/(Loss) %
Portfolio Value	£48,463	£49,727	(2.5)
FTSE 100 Share Index	7,508.62	7,683.96	(2.3)
FTSE All Share Index	4,104.81	4,196.15	(2.2)
FTSE AIM All Share Index	747.24	752.66	(0.7)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
180	Diageo	2767.5	5,056	2860.5	5,149	2400
4,375	JD Sports Fashion	114.35	5,078	105.45	4,613	90
12,500	Alliance Pharma	38.9	4,911	38.8	4,854	30
1,200	Billington Holdings	415	5,030	415	4,980	310
6,500	LPA Group	77.5	5,088	77.5	5,038	60
52	AstraZeneca	9600	5,067	9600	4,992	8700
1,750	Pets at Home	284.6	5,055	284.6	4,980	225
£13,857	Cash				13,857	
	TOTAL				£48,463	

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

LPA

LPA GROUP

77.5p

SECTOR - AIM – ELECTRONIC & ELECTRICAL EQUIPMENT
RECOMMENDATION - BUY

The recently announced final results from the supplier of electronic and electro-mechanical components and systems showed a slight improvement in its fortunes but the company now seems to be gaining some momentum with growth set to accelerate going forward. The company generated revenues of £21.7m in the year to 30 September 2023 but its ambition is to grow this figure to £50m by 2027. Although this seems a tall order, it is worth pointing out that the company had revenues of £28m in 2018 and over the last three years, the company has invested in new management and equipment thus putting it in a strong position for growth.

LPA is a UK-based engineering group specialising in electronic and electro-mechanical components and systems. The group operates from three sites in the UK – LPA Connection Systems is the group's electro-mechanical business and this supplies products including electrical connectors and power systems to the rail, aerospace and infrastructure markets. LPA Channel Electric manufactures and distributes high performance

components and assemblies operating in aerospace, defence and rail and the business works in conjunction with companies such as BAE Systems, Alstom and Airbus. LPA Lighting Systems is the group's electronics business, and this supplies LED lighting and electronic systems to Siemens and other blue-chip customers.

The year to 30 September saw revenue increase by over 12% to £21.7m with a small adjusted loss before tax being reported. However, there was some good news to report with orders of £25.5m being received so that the group had a record order book at the year end of £31.6m. As a sign of confidence in the future a dividend of 1p per share was declared, the first payment since 2019.

We believe that the current financial year will be significant for the group as it reaps the rewards of the work of the last few years. Revenues are set to increase and a return to profitability is on the cards. Looking further ahead we expect growth to accelerate both organically and through acquisition and the current share price looks a good entry point. **BUY.**

	Year Ending 30 September	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 77.5p	2022	19.3	(0.24)	-	-	-	-
Market Capitalisation: £10.5m	2023	21.7	(0.02)	-	-	1.0	1.3
2023/24 Share Price Range: 101.5p/73p	2024 (est)	26.0	0.75	5.7	13.6	1.5	1.9
Website: www.lpa-group.com							

News Highlights

Alliance Pharma



38.8p 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.

Watches of Switzerland – 411.2p

The luxury watch retailer was forced to issue a profit warning last month following poor trading over the important Christmas period. The shares fell sharply on the news and the company has confirmed the poor level of trading in its third quarter figures covering the 13-week period to 28 January. Trading in the lead up to Christmas and beyond was more challenging than had been expected with revenues down 3% on a year earlier. This was particularly noticeable in the UK where purchases of luxury watches fell, and trading conditions are unlikely to improve over the rest of the financial year to 30 April. However, following the release of the third quarter figures, the chairman and chief financial officer have bought stock in the company spending almost £294,000 in total. What could be a stimulus to the share price is the review into tax-free shopping for tourists as, if this was reintroduced, it would be a major boost to retailers of luxury goods such as this. There is considerable pressure being placed on the Government to change the law and this could result in a significant increase in the share price. On balance, we rate the shares a **BUY**.

Speedy Hire – 26.15p

The tool and equipment hire group has issued a trading update confirming that revenues and profits for the year to 31 March 2024 will be below expectations. The shortfall is partly due to adverse weather conditions with mild weather meaning lower demand for the group's heating products, whilst there has been lower demand from the group's national customers due to the challenges in the construction sector. Although the company continues to win more business, this has taken longer to mobilise due to delays on specific contracts and so most revenue will come into the next financial year. Nevertheless, the group's Velocity transformation plan continues to progress well whilst the partnership with B & Q is also going well. We had been expecting adjusted pre-tax profits of £30.0m for the year

that ends next month for earnings per share of 5.2p, but have reduced these figures to £22m and 3.8p respectively. The shares had moved up from 31p when tipped in December to 36p and the subsequent fall of over 27% looks severe. The company should see a recovery in its fortunes next year and standing on a modest p/e ratio of just 6.9x we believe they are a **BUY**.

Alliance Pharma – 38.8p

The AIM-listed global healthcare group has issued a trading update for the year that ended on 31 December with see-through revenues for the year at a record level of £182.7m (2022: £172.0m). Strong consumer demand, notably in China, drove significant recovery in Kelo-Cote franchise revenue in the second half of the year with revenues of the product rising by 29% (at constant exchange rates) over the year to £63.2m. Underlying profit for the year is expected to be in line with market expectations. The new financial year is expected to see further growth in revenue as demand for the group's products remains strong, but in order to achieve the group's objectives further investment in sales and marketing is expected which will mean that profits for 2024 will be similar to those in 2023. Although this is less than we had originally expected, the company still expects to make earnings per share of 4.5p - thus the shares are still cheap and remain a **BUY**.

TI Fluid Systems – 151.2p

The specialist engineering group has issued a trading update covering the year to 31 December which has confirmed that trading remained strong in the last quarter of the year. An improvement in margins was partly offset by inflation, volatility in customer demand and adverse currency movements although the company still expects to produce results for the year ahead of expectations. Revenues for the year are expected to be €3.5bn, much in line with our forecast last August, and if pre-tax profits rise to €177m for earnings per share of €0.22 (18.8p) the shares are on a prospective p/e ratio of just 8.0x. We believe that this makes the shares look cheap especially as they have the support of a yield of around 3.6%. The shares are a **BUY** with a share price target of 225p.

Hargreaves Services – 507.5p

The industrial and property group has announced its interim results for the six months to 30 November and these have shown a significant fall in profits compared with last year due to a lower contribution from the German joint venture HRMS and lower land sales from Hargreaves Land. Although this meant that profits fell to £2.7m from £18.7m, with earnings per share dropping to 5.2p from 52.2p last year, the interim dividend was increased sixfold to 18p per share. This reflects the increased payments from HRMS and cash at the end of the period was £18.7m compared with £18.1m a year earlier. The company has also progressed the pension fund buyout with the imminent end of payments into the fund. The second half of the year is expected to see a much-improved performance with Hargreaves Land expected to produce its best ever annual result following the completion of several transactions post the period end. However, the shares have moved up strongly and are now at the highest level since July 2022. Having risen from 402p (a gain of 26%) on 22 January we believe it makes sense to **TAKE PROFITS**.



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