cityconfidential

sorting the bulls from the bears

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A miner to trade?

Shares in the global mining group Rio Tinto (4914p) have fallen back sharply of late due to concerns over the Chinese economy. China is the world's biggest consumer of raw materials such as iron ore and the latter is the largest contributor of revenues to the group, which is one of the world's largest producers. The share price of the company is therefore relatively volatile as with many mining stocks and sharp movements in the share price are often a result of economic news from China as opposed to any specific news from the company.

The company is one of the largest mining companies in the world with operations in 35 countries employing some 55,000 people. Its main commodity is iron ore, but the company also has interests in copper, aluminium and other minerals, including lithium, scandium and titanium, whilst it also produces diamonds.

In the group's last financial year, which covered the twelve months to 31 December 2023, revenues fell slightly to $54bn (2022: $55.6bn), with $32.2bn coming from copper and $12.3bn from aluminium. Underlying EBITDA also fell to $23.9bn (2022: $26.3bn) with underlying earnings per share coming in at $7.25 (2022: $8.25). The dividend for the year was $4.35 per share (2022: $4.92). Assuming an exchange rate of $1.28/£1, this equates to 340p and so at the current price the shares are yielding 6.9%. Obviously, there is no guarantee that the dividend will be maintained at this level as it was reduced last year but this is certainly an attractive level of income.

We believe that shares in the company are a very attractive trading medium given their volatility and that there are opportunities for investors to take advantage of this. Since the beginning of 2023, the shares have been as high as 6380p and as low as 4550p. But analysis of the share price shows that there are regular moves of over 700p in relatively short time periods. Thus on 16 February, the shares closed at 5515p and on 11 March they closed at 4809.5p. More positive news from China would lead to a bounce in the share price and we suggest that readers pick up stock at under 4900p and look to sell at 5500p. This would be a useful gain of over 12%! TRADING BUY.

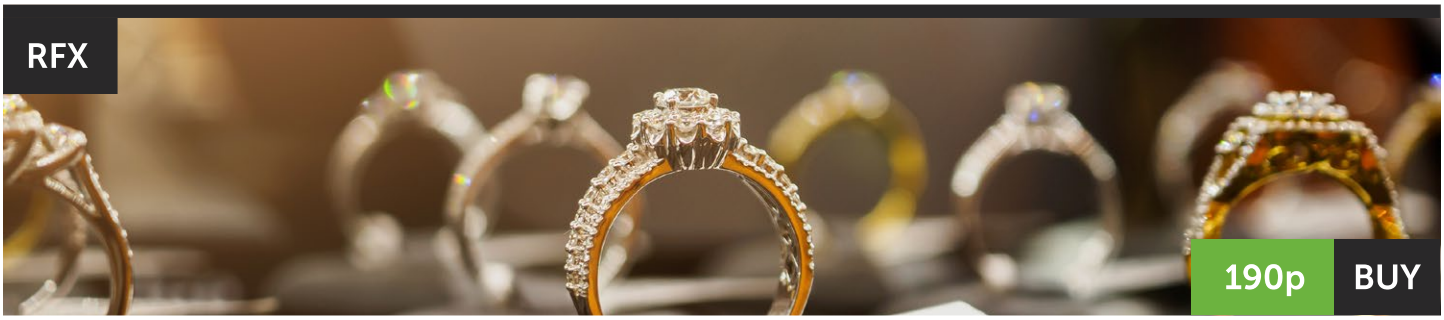
The brakes are about to come off!

The steady decline in the share price of AIM-listed Surface Transforms (10p) may have come to an end, with the company issuing a more positive trading statement in January. The shares have come down from 57p in October 2022, but with revenues at the group now set to increase to some £23m in 2024 from just £8.3m last year it is clear that the group is about to enter a period of significant growth. This does not appear to have been recognised by investors and there is now an excellent opportunity for those prepared to take some risk to acquire shares in a company that looks as though it is going places.

Surface Transforms develops and produces carbon-ceramic material automotive brake discs. The company is one of only two such companies in the world and the only one in the UK. It utilises its proprietary technology to create lightweight brake discs for high performance road and track applications for both internal combustion engine cars and electric vehicles. The group works with a number of automotive manufacturers including mainstream OEMs and niche market/low volume car builders. The advantages of the brake discs over traditional iron brake discs include weight savings of up to 70% (20kg) (particularly important for electric vehicles), improved performance and longer life span. Leading manufacturers who offer carbon ceramic brakes on certain vehicles include Aston Martin, Bentley, Tesla and VW.

The company issued a trading statement in January covering the year to 31 December 2023 and this revealed that revenues had increased by 63% to £8.3m. It was interesting to note that in the last quarter of the year revenues were £3.0m and these had risen every quarter during the year. The company also confirmed its revenue guidance for the current financial year of £23m, a significant rise over last year, with further increases expected in the following years. The company has won a number of new contracts over recent months and is increasing capacity at its plant on Merseyside to cope with this.

Although the business remains loss-making, the rapid increase in revenues should enable it to move into profitability in 2025. The shares are a SPECULATIVE BUY.



Ramsdens Holdings – 190p

SECTOR - AIM - FINANCIAL SERVICES

It seems a little odd that having produced record results for the financial year to 30 September 2023, shares in the financial services group Ramsdens Holdings have dropped back from 225p at the start of the year. The share price now stands at close to its lowest level since October 2022 and yet it was as high as 263p last June. The company is continuing to expand its store portfolio, which now numbers over 165, with eight new stores opened in the last financial year and another five already opened in the current financial year. The group is expecting revenues and underlying pre-tax profits to increase again this year and yet the shares stand on a very modest p/e ratio and attractive dividend yield. With a strong balance sheet, boasting net cash of £5.0m at the year-end, the shares look too cheap.

Activities

Ramsdens is a diversified financial services group which has four areas of operation. These are as follows:- foreign currency exchange, pawnbroking, jewellery retail and the purchase of precious metals. The group offers these services through its stores, and it also has an online presence. The foreign currency business carries out around 1m transactions per annum, mainly with holiday makers. This is the largest contributor to gross profit accounting for some 31%. The pawnbroking business involves lending relatively small sums of money (the average loan is £325) secured against items of jewellery. The loans are for six months, and the average interest rate is 9.5% (APR - 150%) although this varies depending on the amount borrowed. Some 85% of loans are repaid on time, but if the customer defaults the jewellery is sold and any surplus over the amount owed to the company is paid to the customer. This business accounts for 22% of gross profit. The jewellery retail business (27% of gross profit) comprises sales of new and second-hand jewellery and premium watches. The group carries out about 140,000 transactions per annum with an increasing number being carried out online which now accounts for 20% of all sales. The purchase of precious metals involves the purchase of unwanted or broken jewellery items which are then resold or smelted for sale through the wholesale market. This segment which accounts for 20% of gross profit only recognises those items that are smelted.

Financial

In the year to 30 September 2023, group revenue rose by 26.8% to £83.8m (2022: £66.1m) with growth across all of the group's income streams. During the year the group opened eight new stores with another two being relocated as part of a move to upgrade the retail estate. At the end of the financial year the group operated from 162 stores (including two franchised stores), most of which are located in the North of England, Scotland and South Wales. However, three of the new stores opened last year were in the South East with a pawnbroker in Bexleyheath also being acquired.

Group pre-tax profit rose 22% to £10.1m (2022: £8.3m) which was a record for the group and earnings per share rose by 17% to 24.5p (2022: 20.9p). The dividend was increased by 16% to 10.4p (2022: 9.0p). Around 40% of revenue came from the jewellery retail business, where sales rose by 23% to £33.5m and gross profit was 17% higher at £12.1m. Online sales rose by 70% to £6.7m and these now account for 20% of the total. The purchase of precious metals saw revenues rise by 48% to £23.5m, with gross profit 38% higher at £9.2m with the business benefiting from the high gold price. Foreign currency revenues increased by 8% to £14.1m with gross profit also up the same amount at £13.6m. The pawnbroking business saw revenues increase by 32% to £11.9m with gross profit up 33% at £10.0m. At the year end, the loan book had risen by 19% over the previous year to £10.3m as demand for short-term loans continues to grow.

Outlook

At the company's AGM earlier this week, a trading statement was issued covering the five-month period to 29 February. This revealed that trading during the period had been strong and in line with management expectations. Gross profit in the foreign currency business increased by around 3% over the period with the business building momentum ahead of the important summer trading period. The pawnbroking business also continues to grow with the loan book increasing to £10.7m from £10.3m at the year end as demand for small sum, short-term credit increased. Revenue in the jewellery retail business was broadly flat compared to the same period a year ago although gross profit was some 5% higher due to a change in sales mix. There were more sales of higher margin second hand and diamond jewellery and lower sales of premium watches which have a higher ticket price, but which are lower margin. Gross profit on the purchase of precious metals increased by approximately 20% on the previous year, reflecting increasing consumer awareness of this business and supported by the high gold price.

The group has continued to expand its store portfolio, opening five new stores during the period in Romford, Burnley, Blackburn, Cardiff and Poole. This has taken the store portfolio to 167 stores (including two franchised stores). The company believes that there are over 350 towns/cities in the UK with populations of over 30,000 where Ramsdens could successfully operate a store and so there is clearly scope to expand the store portfolio. In addition, the group has profitable stores in towns with 15,000 people or less. Apart from the store portfolio, the group is also increasing its online presence with new websites opening this year.

We believe that the fall in the share price over recent months has been unjustified and that the current share price represents an attractive entry point for investors. The shares stand on a low p/e ratio, have an attractive dividend yield and are backed by a strong balance sheet. They are a BUY.

Share Price: 190p
Market Capitalisation: £60.3m
2023/24 Share Price Range: 263p/171.5p
Website: www.ramsdensplc.com

Year Ending 30 September	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	66.1	8.3	20.9	9.1	9.0	4.7
2023	83.8	10.1	24.5	7.8	10.4	5.5
2024 (est)	89.0	10.7	25.9	7.3	11.0	5.8

Aggressive Growth Portfolio IX

The second month of the Aggressive Growth Portfolio IX has been a little better than the first but only just. Whereas last month the portfolio fell in value by 2.5%, which was a similar performance to most of the benchmark indices, this month it has actually increased in value, but it has underperformed two of the benchmark indices. It has however outperformed the FTSE AIM All Share Index as the latter has declined slightly in value. It is interesting to note that the FTSE 100 Index is now at the highest level since May 2023.

Looking at the portfolio, it is interesting to note that shares in the large stocks have all performed well, probably due to the fact that the FTSE 100 Index has also risen over the last month. Of particular note is the rise of almost 12% in the share price of JD Sports Fashion during the period, although even shares in AstraZeneca have increased in value by 8.7% during the month. Who says that large companies are boring?

Although we still have quite a lot of cash to invest, we do not have enough to invest in all four companies in this issue and so have reverted to our normal practice of just investing in the two companies which are the subject of main features. As we said last month, we are expecting to become more aggressive in the way the portfolio is managed and any further rise in the share price of AstraZeneca may well result in a sale and a short-term profit!

After making the investments in the two main companies this month there is a balance of £3,809 available to carry forward for investment as there have not been any dividends received in the portfolio as yet.

Performance summary

	12 March 2024	13 February 2024	Gain/(Loss) %
Portfolio Value	£48,734	£48,463	0.6
FTSE 100 Share Index	7,747.81	7,508.62	3.2
FTSE All Share Index	4,233.33	4,104.81	3.1
FTSE AIM All Share Index	738.04	747.24	(1.2)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
180	Diageo	2767.5	5,056	2908	5,234	2400
4,375	JD Sports Fashion	114.35	5,078	117.9	5,158	90
12,500	Alliance Pharma	38.9	4,911	37.4	4,675	30
1,200	Billington Holdings	415	5,030	400	4,800	310
6,500	LPA Group	77.5	5,088	77.5	5,038	60
52	AstraZeneca	9600	5,067	10436	5,427	8700
1,750	Pets at Home	284.6	5,055	265.4	4,645	225
2,625	Ramsdens	190	5,037	190	4,987	145
15,750	SRT Marine Systems	31.5	5,011	31.5	4,961	25
£3,809	Cash				3,809	
				TOTAL	**£48,734**	

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

SRT

31.5p

SRT MARINE SYSTEMS

SECTOR - AIM - TELECOMS EQUIPMENT
RECOMMENDATION - BUY

The share price of this maritime safety and systems group has come down from 68p last summer and we believe that this has presented a useful buying opportunity for investors. The fall in the share price has probably been caused by the disappointing interim results to 30 September with the company reporting a loss at the half-year stage. However, the company's revenue largely consists of milestone payments on large contracts and these are now expected to be recognised in the coming months as the group moves into profit. With further growth to come going forward the shares are good value.

SRT uses its technologies and products to help with the global issues of maritime safety, security and sustainability. The company has developed innovative advanced digital technologies, products and systems and these are supplied to vessel operators, coastguards, and fishery and environmental agencies. The systems are used by coastguards to maintain surveillance and fully automatic AI-driven detection of suspicious and illegal activities. They also allow ships to navigate more safely and efficiently whilst also enabling long-term sustainable fishing and protection of the marine environment.

The company has recently issued a trading statement and also announced a change in its year end. The latter has been done as a precautionary measure to allow the company to continue to tender for certain new contracts. In one specific jurisdiction where the group operates, the company must meet certain financial criteria in order to bid for business and there are some project deliveries which are due for delivery this month which, if delayed, would possibly prevent this. The company has therefore extended the current financial period to 30 June and it will therefore be reporting for 15 months. The company continues to trade as expected with substantial revenue growth expected together with a move into profit. On a modest p/e ratio and with further revenue and profit growth expected going forward the shares are a BUY.

Share Price: 31.5p
Market Capitalisation: £70.1m
2023/24 Share Price Range: 68p/30p
Website: www.srt-marine.com

Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2022	8.2	(6.8)	-	-	-	-
2023	30.5	(0.6)	-	-	-	-
2024 (est)*	70.0	5.5	2.7	11.7		

*Fifteen month period to 30 June

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.

Costain – 68.6p

In the year to 31 December the UK infrastructure group saw revenues fall by 6.3% to £1.33bn although this was expected as a number of projects neared completion. Adjusted pre-tax profits rose by over 29% to £44.2m (2022: £34.2m) with earnings per share on the same basis up over 23% to 12.2p (2022: 9.9p). The dividend for the year was 1.2p per share and net cash at the year-end rose to £164.4m (2022: £123.8m). These results have benefited from increased volumes and margins in the natural resources business whilst transportation has produced a resilient performance despite a fall in revenues in the road business. The operating margin for the year rose to 3.0% (2022: 2.6%) and this improvement is expected to continue in the current year to 3.5% with 4.5% on the cards for 2025. Pre-tax profits for the current year could increase to £48m for earnings per share of 13.2p. This would put the shares on a p/e ratio of just 5.2x, which looks far too low. The nature of the business means that a p/e ratio of around 8x is probably appropriate and so we set a share price target of 105p, being 8x the 13.2p of earnings expected this year. This represents upside of over 50%. BUY.

TI Fluid Systems – 152.2p

The specialist engineering group has announced its results for the year to 31 December and these have shown that the group did well last year. Revenues at the group increased over 7% to €3.52bn (2022: €3.27bn) and adjusted pre-tax profits rose to €121.1m (2022: €41.7m). Earnings per share on the same basis rose to 25.8 € cents (2022: 16.4 € cents) and the dividend per share was raised to 6.83 € cents (2022: 2.54 € cents. These results benefited from growth in volumes as well as an improvement in margins as cost reduction plans came into play. Strong cash generation allowed net debt to reduce to €595m (2022: €625m). The current financial year is likely to see similar levels of revenue to last year although margins are set to increase. Thus, pre-tax profits are also likely to rise, albeit modestly. Earnings per share last year were around 22p in sterling terms putting the shares on a historic p/e ratio of just 7.0x. With this rating expected to reduce in the current year it is clear that the shares are undervalued. In January, we stated that the shares were cheap with a share price target of 225p, and we are happy to retain that share price target, being growth of some 48% from the current level. We believe that the shares are therefore a BUY.

TT Electronics – 149.6p

In the year to 31 December 2023 group revenue declined by 1% to £613.9m, although adjusted pre-tax profits rose by 6% to £43.0m. Earnings per share on the same basis emerged 5% higher at 19.2p and the dividend for the year was raised by 8% to 6.8p per share. Net debt at the end of the year fell to £126.2m from £138.4m a year earlier. The sale of three business units announced recently for £20.8m should help to reduce gearing as well as increase profit margins going forward. These are excellent results with profit margins increasing and debt falling during the year. There was a much better performance from the Power and Connectivity business, which was a priority at the start of the year. The group has gained significant new orders during the year with 37 contract awards worth a potential £250m of revenues, with total orders in hand at the year-end representing 11 months of revenue of which 9 months relates to 2024. The group expects operating margins to increase to 10% in 2024 from 8.6% in 2023 and this should help profits increase further in the current year. We expect adjusted pre-tax profits of at least £46m in the current year for earnings per share of 20.8p. That puts the shares on a prospective p/e ratio of just 7.2x, which is too low. The shares are a buy with a share price target of 250p. BUY.

Synectics – 180p

As regular readers will know, we have long championed the shares of security and surveillance systems group Synectics and have been disappointed in the performance of the share price. At last, it seems that other investors have woken up to the potential at the group as the shares have moved up from 107.5p last July. In the year to 30 November, revenue increased by 26% to £49.1m (2022: £39.1m) whilst underlying pre-tax profit almost trebled to £2.96m (2022: £1.02m). Earnings per share on the same basis more than doubled to 14.2p (2022: 6.9p) and the dividend was raised to 3p per share (2022: 2p). Net cash at the year-end was £4.6m (2022: £4.3m). These are strong results, beating expectations underpinned by strong demand from the oil and gas sector. The group started the new financial year with a strong order book of £29.2m (2022: £24.4m) and so further progress looks likely this year as demand in the oil and gas sector remains strong. There are some signs that demand in the casino sector is set to increase, notably in Asia, whilst the core infrastructure and transport sectors should do better than last year. We believe that adjusted pre-tax profits in the current year could rise to £3.6m for earnings per share of 17p. Standing on a prospective p/e ratio of just 10.6x we believe the stock is cheap and with a share price target of 255p (15x the earnings for 2024) we believe the shares are a BUY.

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