cityconfidential

sorting the bulls from the bears

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Now You're Talking

Those readers who want some serious price action in terms of volatility should consider shares in Audioboom (255p) the global podcast company. Readers with long memories may remember that we tipped the shares at 652p back in April 2021 and the shares subsequently rose to a high of 2250p in April the following year! Since then, the share price has fallen by over 90% and we believe that this presents investors who enjoy a bit of risk with an attractive entry point. The share price in 2022 was clearly too high as investors jumped onto the podcast bandwagon during the pandemic and so it was no real surprise to see it fall back.

Audioboom is a global podcast company which connects content providers with advertisers and then distributes this to a global audience. Audioboom's platform is an indispensable component in podcasting's three-sided marketplace of audience, advertiser and creator. The platform handles more than 8,000 content channels, has over 8,000 advertisers and receives more than 130 million episode downloads monthly from its unique audience of over 38 million users. The company has developed three clearly differentiated advertising products to support this growth.

Last year was a difficult one for the group with revenues falling to $65m (2022: $74.9m) due to a soft advertising market and this resulted in the group making a loss for the year. Nevertheless, the group gained market share and reinforced its position as one of the world's largest independent podcast companies. An improved performance in the final quarter of 2023 has been continued with revenues for the three months to 31 March up 11% on last year at $17.1m. The company returned to profit at the EBITDA level and further growth in revenues is expected over the rest of the year.

The shares are clearly speculative, but the company now does look as though it is back on the growth path. It operates in a growing market and there is clearly scope for the shares to move higher. Only just over a year ago the shares were around 570p and, whilst it may be a stretch for them to recover to that level in the short-term, a move up to 325p which they hit just three months ago looks possible. That would be a gain of over 27%. The shares are a SPECULATIVE BUY.

The Land of the Rising Sun!

Investors of a certain age may remember that back in the 1980s, the Japanese stock market was vying with the US market as being the largest in the world by value. In 1989, the Nikkei 225 Index hit a peak at just under 40,000 but then spent the next thirty four years trying to make it back to that level! The Japanese economy struggled with an ageing population, economic stagflation and the threat from China (both political and economic) and Japanese companies failed to perform. It was only last year that the Index finally moved above its previous all-time high from 1989 and there are grounds for believing the recovery will move on from here.

Those readers looking for a way to play the potential recovery in the Japanese market should take a look at Baillie Gifford Shin Nippon (115.6p). As the name implies, this is an investment trust run by the well-known investment house Baillie Gifford and the company aims to achieve long-term capital growth through investing in small Japanese companies. The company aims to run a reasonably diversified portfolio with between 40 – 80 holdings which it believes are attractively valued but which have good growth potential. As most readers will be aware, smaller companies are usually the last to benefit in any stock market rally and this investment trust gives exposure to the sector.

Shares in Baillie Gifford Shin Nippon currently stand at the lowest level since the outbreak of the pandemic four years ago, which seems slightly at odds with the larger Japanese companies that have recovered to levels not seen in almost 35 years. Since that low point in 2020, the share price of the company has been as high as 270p thus demonstrating the potential upside.

At the end of March, the top ten holdings in the portfolio accounted for almost 25% by value of the total and the company can only hold 10% of its assets in unquoted companies. This helps to provide transparency for investors. At the close of business on 16 April, the net asset value per share was 137p and so the shares currently stand on a discount of 15.6% to this. We believe that this is a very attractive entry point for investors who want exposure to 'the land of the rising sun'! BUY.

Epwin Group – 86p

SECTOR - AIM - CONSTRUCTION & MATERIALS

The AIM-listed manufacturer of energy efficient and low maintenance building products has recently announced its results for 2023 and these have shown improvements in profits and earnings per share despite a slight fall in revenues. Although there are some economic headwinds which may continue to affect the company in the short term, inflationary pressures at the group are easing which should continue to help profit margins improve. The company has a diversified product portfolio and this continues to develop with increasing use being made of recycled materials. Trading so far in 2024 has been in line with expectations with positive market drivers set to continue and with market conditions likely to improve as the year goes on, this year should see another increase in profits with £19.0m on the cards. This would produce earnings per share of around 10.25p with the dividend likely to be increased to 5p per share. The company has also announced that it is to extend its share buyback programme. The shares look good value.

Activities

Epwin is a leading manufacturer of energy efficient and low maintenance building products with significant market share in its chosen areas of operation. The company supplies both the new build and social housing markets as well as the RMI (Repair, Maintenance and Improvement) sector. The company operates through two divisions as follows: Extrusion and Moulding – this supplies a range of windows, doors and curtain walling including vertical sliding and tilt & turn windows and patio and bi-folding doors. It also supplies composite decking with its ecodeck® wood plastic composite that consists of 95% recycled material which is a durable and sustainable alternative to timber. Other products include cellular PVC cladding and facia products and drainage products such as drainpipes and guttering. The business operates from extrusion and moulding facilities in Telford, Tamworth and Scunthorpe and a recently acquired materials reprocessing plant in Norwich. Fabrication and Distribution – this includes the group's national network of over 90 building plastic trade distribution centres and window stores, complementing the group's commitment to its independent distributor customers as well as servicing specialist customer requirements with fabricated windows and doors from the group's own profile systems. The business manufactures PVC doors and windows as well as GRP (glass reinforced plastic) and Thermoplastic door sets from three sites in Telford, Paignton and Upton-upon-Severn. These are sold through the group's distribution outlets and supplied to social housing and new build customers. The division also includes the decking design and installation businesses.

Financial

The group has recently announced its annual results for the year to 31 December 2023 and these revealed that revenue for the year had declined to £345.4m (2022: £355.8m) due to difficult trading conditions, notably in the second half of the year. There were lower sales volumes in the private RMI sector whilst a slowing housing market also had a negative impact. However, an improvement in profit margins towards pre-pandemic levels allowed underlying operating profits to rise by 19% to £25.5m (2022: £21.5m). As a result, adjusted pre-tax profits rose to £18.0m (2022: £16.5m) with earnings per share on the same basis increasing to 9.71p (2022: 8.95p). The dividend for the year was raised by almost 8% to 4.80p (2022: 4.45p). The group enjoyed strong cash flow during the year and net debt at the year-end declined to £14.4m (2022: £17.9m).

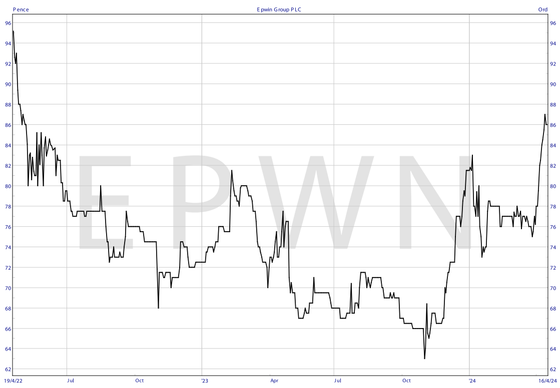
These results came in slightly ahead of expectations with acquisitions made in 2022 contributing £12.0m of revenue (2022: £3.8m). Operating margins increased to 7.4% (2022: 6.0%) with the significant price inflation seen in raw materials easing during the year – however, increased levels of pay and energy costs continued to put pressure on overheads. The company has kept a sharp focus on its operational efficiency with materials efficiency and scrap rates being closely monitored with the latter now at all-time lows due to improved working practices. The company is increasing the volume of PVC waste it recycles and this is then re-used in the group's own products. The group's decking production was consolidated into a single site in the first half of the year, enabling operational synergies to be realised from the second half of the year. The group is currently also consolidating its IT systems, as well as the administration and finance functions, across the distribution network and this should be completed in the first half of the current year.

Last November, the company announced a share buyback programme to acquire up to 3m shares and this has now been completed – given the strong financial position at the group, it has decided to extend this programme with up to another 3m shares to be purchased.

Outlook

Trading in the current financial year has so far been in line with management expectations and this year should further benefit from the improvement to the decking manufacturing operations and the consolidation of the IT and other systems. The group operates in markets that seem set to continue growing with a shortage of housing in general, whilst poorly maintained and ageing housing stock look set to increase demand for the group's products. The fact that the products are low maintenance and energy efficient adds to their appeal as does the fact that the company uses increasing amounts of recycled materials in the products.

We believe that profits should increase again this year and, as the housing market picks up, further increases should be seen going forward. The shares stand on a modest prospective p/e ratio of just 8.4x and yield 5.8%. The share buyback will also lend support and there seems no reason why the shares can't recover to the 2021 high of 119p. That would represent a gain of almost 40% - we believe the shares are a BUY.



Share Price: 86p
Market Capitalisation: £60.7m
2023/24 Share Price Range: 87p/63p
Website: www.epwin.co.uk

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	356	16.5	8.95	9.6	4.45	5.2
2023	345	18.0	9.71	8.9	4.80	5.6
2024 (est)	350	19.0	10.20	8.4	5.00	5.8

Aggressive Growth Portfolio IX

The last month has seen rather a mixed performance from the Aggressive Growth Portfolio IX with strong share price performances from Billington Holdings and AstraZeneca being offset by a disappointing performance from LPA Group. The overall result is that the portfolio has increased in value by 0.5% and, as can be seen from the table below, this is a similar result to the benchmark indices.

A number of companies made announcements during the month and these were JD Sports Fashion, Billington Holdings, LPA Group and Pets at Home. As usual, these are either covered in News Highlights elsewhere in the newsletter or on the website.

Following the disappointing trading update, we have decided to sell the holding of 6,500 LPA Group disposing of the shares at a price of 64p. This is an example of the more aggressive approach that we are taking to this portfolio as we disclosed in January. The sale has realised net proceeds of £4,118 for a loss of £970. We have also decided to sell the holding of 52 AstraZeneca at a price of 10878p following another increase in the share price over the last few weeks. This has raised net proceeds of £5,600 for a profit of £533. This is a gain of over 10% in just two months! In addition, shareholders also received a dividend of £81 during the month.

The portfolio has received two dividends during the month from LPA Group (£65) and AstraZeneca (£81). After making the investments into the two main company features this month there is £3,695 on deposit available for investment.

Performance summary

	16 April 2024	12 March 2024	Gain/(Loss) %
Portfolio Value	£48,967	£48,734	0.5
FTSE 100 Share Index	7,820.36	7,747.81	0.9
FTSE All Share Index	4,260.41	4,233.33	0.6
FTSE AIM All Share Index	738.28	738.04	-

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
180	Diageo	2767.5	5,056	2746	4,943	2400
4,375	JD Sports Fashion	114.35	5,078	116.9	5,114	90
12,500	Alliance Pharma	38.9	4,911	36.3	4,538	30
1,200	Billington Holdings	415	5,030	495	5,940	310
1,750	Pets at Home	284.6	5,055	276	4,830	225
2,625	Ramsdens	190	5,037	205	5,381	145
15,750	SRT Marine Systems	31.5	5,011	29.5	4,646	25
5,750	Epwin Group	86	4,994	86	4,945	70
11,750	Renold	42	4,984	42	4,935	35
£3,695	Cash				3,695	
				TOTAL	**£48,967**	

Start date: 9 January 2024 with £50,000. Cash includes dividends received of £146.

RNO

42p

Renold

SECTOR - AIM - INDUSTRIAL ENGINEERING

RECOMMENDATION - BUY

Regular readers may recall that we tipped this company back in August 2021 when the shares were 25.1p. Although the share price has risen significantly since then, a recent trading statement has confirmed that the results for the year to 31 March 2024 will be significantly above expectations. The strong momentum seen in the first half of the financial year, which saw adjusted interim pre-tax profits rise by 55%, has continued into the second half and profit forecasts have been increased accordingly. Strong cash conversion has seen a reduction in debt and with order books close to record levels further progress should be made in the new financial year. The shares are good value.

Renold is a global leader in the manufacture of industrial chains and the group also manufactures a range of torque transmission products. These are sold throughout the world to a broad range of original equipment manufacturers and distributors. Its products are used in a wide variety of industries including manufacturing, transportation, energy, steel and mining.

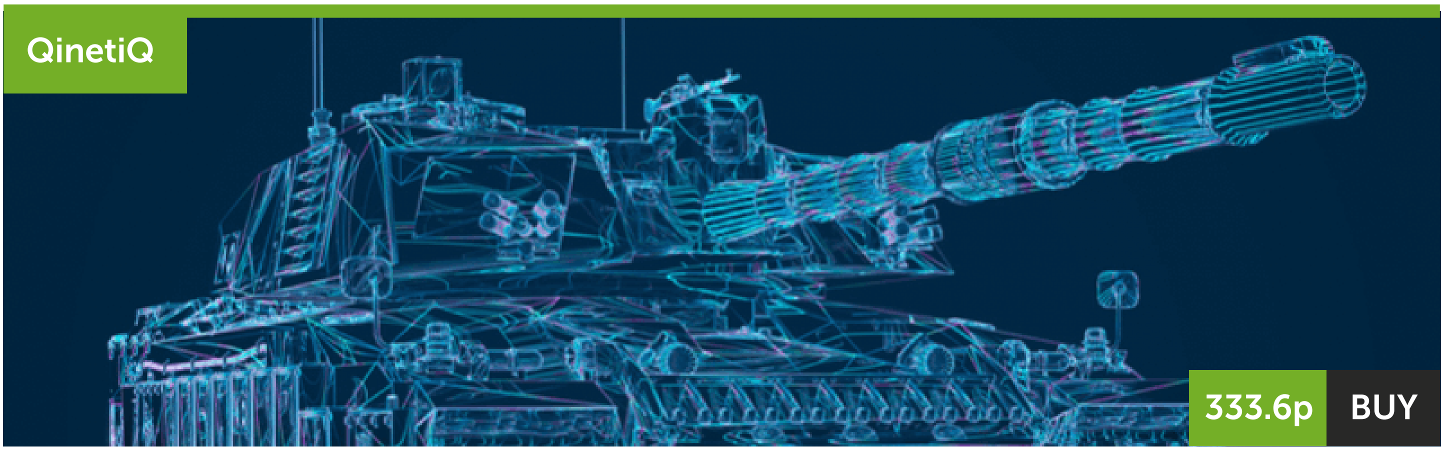
In the six months to 30 September, the company reported an 8% increase in revenues to £125.3m, but adjusted pre-tax profits rose by almost 55% to £11.3m. Earnings per share on the same basis were 41% higher at 3.8p although there was no dividend as usual. Net debt fell during the six-month period by £1.5m to £28.3m. These were excellent results, helped by strong growth in the torque transmission activities and improvements in productivity which allowed margins to increase.

The recent trading statement confirmed that the progress seen in the first half has continued with progress in productivity and efficiency programmes driving margin and profit improvement. The order book at the year end was £83.6m, close to record levels, whilst debt had fallen further to £24.9m. The shares stand on a very low p/e ratio and although there is no dividend they look too cheap. BUY.

Share Price: 42p
Market Capitalisation: £94.6m
2023/24 Share Price Range: 45.5p/22p
Website: www.renold.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	195	11.5	4.3	9.8	-	-
2023	247	18.6	6.5	6.5	-	-
2024 (est)	242	22.6	7.6	5.5	-	-

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.

Billington Holdings – 495p

In the year to 31 December 2023, revenues rose 53% to £132.5m (2022: £86.6m) with pre-tax profit increasing 131% to £13.4m (2022: £5.8m). Earnings per share increased to 84.4p (2022: 39.1p) with the annual dividend more than doubling to 33.0p (2022: 15.5p). These are record results for the group with all parts of the business contributing, despite the fact that demand for structural steel was at a similar level to 2022. The group has also gained market share which was a notable feature of the results. The positive results also left the group with net cash at the end of the year of £22.1m (2022: £11.6m). Helped by recent contract wins, the group has a record order book and with such a strong balance sheet further growth going forward looks likely. Revenues for 2024 could rise to £135m and even if profits emerge at a similar level to 2023, the shares are very lowly rated on a prospective p/e ratio of just 5.9x. We maintain our recommendation of BUY.

QinetiQ – 333.6p

The UK defence group has issued a positive trading update for the financial year to 31 March. The company saw strong growth in its EMEA (Europe, Middle East and Australasia) Services business thanks to a strong order backlog and, with order intake being strong, this performance is expected to continue. Slower growth was seen in Global Solutions during the period which was impacted by difficult market conditions in the US. However, the business picked up $977m of contract awards during the year, providing good revenue visibility going into the new financial year. The group therefore expects to meet market forecasts for the year just ended of adjusted pre-tax profits of £195m for earnings per share of 28p. The new financial year is expected to be another strong year of growth with the trends recorded last year expected to continue. The shares have fallen from the recent high of 376p and we rate them as a BUY.

LPA Group – 64p

The AIM-listed specialist engineering group has announced that delays caused by customers in delivering three rail contracts will mean that the current financial year will see revenues of around £24.7m, some £1.5m lower than previously expected. Although other parts of the business continue to trade well, this will mean that the current year is likely to result in break-even with figures for 2025 also likely to be adversely affected. Following the announcement, CEO Paul Curtis purchased 10,000 shares at 66.9p but until there is more clarity on the position, we reduce our recommendation to HOLD.

JD Sports Fashion – 116.9p

The sports and fashion retailer issued a trading update covering the 53 weeks to 3 February 2024, and this revealed that like-for-like sales rose by 4.2% during the period. Pre-tax profits are expected to be in the range of £915m to £935m previously advised. The company has also provided some guidance for the current financial year which has started well and in line with expectations. Although the market remains challenging this is expected to improve during the year helped by a busy sporting summer (the Olympics and Euros) and an improving product pipeline. The group has also given guidance for pre-tax profits for the year of between £900m and £980m assuming the same accounting policies as the year just ended (these will change this year). The group ended the last financial year with net cash of over £1bn which represents almost 20p per share! The shares ran up to 135p on the announcement before slipping back and tipped at 114.35p in January they remain a BUY.

Pets at Home – 276p

The UK's leading pet care business has revealed that trading in the 52-week period to 28 March 2024 has been as expected with pre-tax profits for the year expected to be around £132m. Earnings per share should emerge at around 22p whilst the group also expects to end the year in a net cash position despite returning over £100m to shareholders last year through dividends and share buybacks. The group has successfully launched its digital platform to consumers, and this is expected to contribute significantly in the new financial year. The company has confirmed that it is happy with forecasts of around £146m for pre-tax profit in the new financial year and earnings per share could increase to 24.5p as a result. A prospective p/e ratio of just 11.3x looks too low and we maintain our recommendation of BUY with a share price target of 350p.

Surface Transforms – 3.1p

In the first quarter of the current financial year, the manufacturer of carbon-ceramic brake discs generated revenues of £3.0m, the same level as Q4 of 2023. This is disappointing following four quarters of revenue growth although it is interesting that revenues in March alone were £1.5m, which is more encouraging. However, as we were going to press another statement from the company has reduced sales guidance for the year to between £17.5m and £22m from the £23m previously expected. Given the fact that the latter figure was only confirmed a week or so ago this is a little concerning and despite the fall in the share price we reduce our recommendation to HOLD.

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