

cityconfidential

sorting the bulls from the bears

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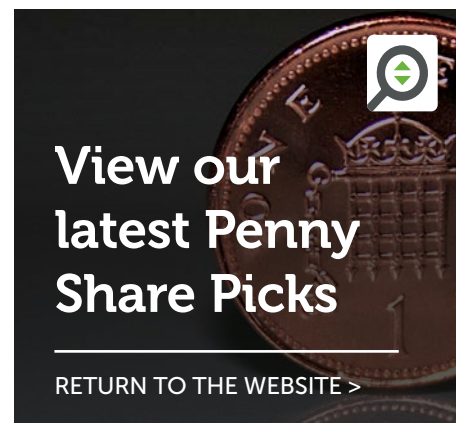
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Looking for recovery

Shares in the life sciences and drug discovery company **Avacta (41.75p)** have fallen significantly since early last year when the share price hit 186p. Whilst hindsight is a wonderful thing, it is clear that the shares were seriously overvalued at that time, although it can also be argued that the decline since then has been overdone. Although the company is some way off profitability, the share price is influenced by other factors such as news on the drug discovery programme and partnership agreements with third parties.

Avacta operates through two divisions. The clinical stage oncology biotech division uses its proprietary therapeutic platforms to develop novel, highly targeted cancer drugs. Traditional cancer treatment such as chemotherapy kills

off healthy cells in the body as well as cancer cells and the company is aiming to produce drugs which only attack the cancer cells whilst leaving the healthy cells untouched. This is achieved using the group's pre|CISION platform technology and the leading drug under development is AVA6000 which is in clinical trials and so far the clinical data that has been generated shows considerable promise. However, there is still a long way to go in the development of the drug and so investors will need to be patient. The company also has a diagnostics division which provides support to healthcare professionals and aims to broaden access to high quality diagnostics. The group's strategy had been to grow this business through acquisition and it has successfully

done this with the division generating revenues of £21.2m last year. Given the potential of the therapeutic division though, future investment will be focused on this.

The company has recently raised gross proceeds of £31.1m through an issue of shares at 50p and, when added to the £16.6m of cash held at the year end of 31 December, this should provide sufficient funding for the group for some time. A new, experienced CEO has also just taken over at the helm of the business which also strengthens the management team. Clearly the shares must be viewed as a high-risk investment but given the scope for some recovery in the share price we believe a **SPECULATIVE BUY** rating is deserved.



The end of the Saga!

Market watchers will be aware that shares in **Saga (133.8p)** have been a disastrous investment over the last few years, with the share price dropping by over 90% over the last five years alone! However, the results for the financial year to 31 January 2024 saw a significant improvement in revenue and profits whilst net debt has also fallen. Although it is relatively early days in the group's recovery and investors will undoubtedly be cautious, we believe that brave investors who take the plunge and buy now could be well rewarded.

As most readers will be aware, Saga offers a range of services to older people which it defines as being over 50. These services are primarily travel, cruises and insurance although there are also some smaller businesses such as

money and publishing. The group has a highly recognised brand and its target market of the over-50s is the fastest growing demographic in the UK as well as being the most affluent. In 2023, it is estimated that there were 26.2m people aged over 50 in the UK with this number expected to increase to 28.1m by 2033.

In the latest financial year to 31 January, underlying revenue at the group rose by 13% to £733m with underlying pre-tax profit increasing by 146% to £38.2m. The group's Ocean Cruise business had an outstanding year, far exceeding management expectations, while River Cruise and Travel both returned to profit for the first time since the pandemic. The insurance business was hindered by challenging trading conditions, but the

company is taking action to address some of the issues surrounding this. The group reported underlying earnings per share of 30.0p for the year putting the shares on a p/e ratio of just 4.5x. Net debt at the year end was £637m down from £712m a year earlier.

Looking ahead, the travel and cruise businesses have strong forward bookings and are ahead of last year whilst the actions taken in the insurance business appear to be paying off. The group has a customer database of 9.6m people and the company is looking at ways to deepen its relationship with those customers with the potential for significant new business. Although not without risk the shares are a **SPECULATIVE BUY**.



SDI Group – 71.5p

SECTOR - AIM - ELECTRONIC & ELECTRICAL EQUIPMENT

The recent trading statement from the AIM-quoted designer and manufacturer of scientific and technology products has provided reassurance on the results for the year to 30 April 2024. Although these will not be as good as the previous year, the current financial year should see a return to growth once again and, in our opinion, the share price now offers excellent value. The shares stand on a relatively modest p/e ratio and although there is no dividend the growth prospects more than make up for this. The share price hit 200p in March 2023 and although we do not expect the shares to rise to that level anytime soon, we do think that a rating of 14x the earnings for the current financial year is achievable. That sets a share price target of around 104p, an increase of 45% over the current level, thus justifying our recommendation of BUY.

Activities

SDI Group designs and manufactures scientific and technology products for use in a range of industries. The group mainly focuses on digital imaging and sensing and control applications. Although the businesses that the group owns all seek to grow organically, SDI is an acquisitive group with a buy and build business model and acquisitions have been a significant factor in the growth seen over recent years. The company's portfolio of businesses have a spread of technologies working in diverse global sectors and each has a niche technology working in a sustainable market. Businesses acquired by the group retain their independence and culture and yet being part of a larger group gives them access to strong financial support and specialist resources that they would not have on their own.

The group's activities are run through two divisions. The larger of these is Sensors & Control which accounted for 69% of revenues in 2023. There are 11 companies in this division and these produce a range of products including electrochemical sensors, chillers and heat exchangers, gas flow measurement instruments, flowmeters and fume cupboards. These are used in a number of industries including pharmaceuticals, aerospace and engineering and in laboratories and scientific analysis. The Digital Imaging division accounted for 31% of 2023 revenues and consists of Atik Cameras and Synoptics. The former designs and manufactures specialist cameras for use in life sciences and astronomy, whilst it is the world leader in infrared reflectography cameras which are used in art conservation. The latter produces systems and software for automated DNA and protein imaging and systems for microbiological testing in food, pharmaceutical and other industries.

Financial

The most recent results announced by the group cover the six months to 31 October 2023 when group revenue rose by 1.6% to £32.2m. Adjusted pre-tax profits decreased to £3.7m from £6.5m in the same period in the previous year with earnings per share down to 2.68p from 5.02p. The increase in revenues was more impressive than it looks as the company had £6.4m of COVID-related sales in the previous year. Overall trading was a bit mixed with many customers who had previously over ordered due to COVID now destocking and this adversely affected sales and profits. Excluding the COVID-related sales from last year, organic revenue growth was 2.2% but acquisitions provided an additional 20% of revenue for the

period. Gross margins during the period were similar to the previous year at 63%, but overheads increased mainly due to acquisitions. Net debt at the end of the period was £13.2m, down from £13.3m at 30 April.

The trading statement released on 20 May covered the period to 30 April 2024 and confirmed that revenues would be in line with market expectations at around £65.9m. This figure includes a first-time contribution from Peak Sensors (acquired in November 2023) and full year contributions from a couple of businesses acquired in July and October 2022. The second half of the year saw an improvement in both profitability and cash generation over the first half and this enabled net debt at the year end to be maintained at £13.2m despite the company spending £3.3m on acquisitions during the period. It is pleasing to report that the increase in revenue was seen pretty much across the board although Scientific Vacuum Services did see a fall in revenues after delivering a large contract in the first half of the year. The company is therefore confident that adjusted pre-tax profit for the year will be in the order of £8.0m, which is pretty much in line with market expectations.

Outlook

The company has always maintained that 2024 was going to be a more difficult year as the effects of overstocking by customers (which had benefited earlier years) began to unravel. However, it is pleasing that despite this impact, the company has continued to do well, remaining profitable and also cash generative. It does seem likely that 2024 will be the low point in the current cycle and that revenues and profits will start to increase from the current year.

The group's strategy of acquiring small, niche businesses which continue to be run independently as before is clearly working and the fact that these businesses serve different end markets also provides some diversification. The businesses benefit from being part of a larger group whilst maintaining their entrepreneurial flair and scope for innovation. As the companies being acquired are private companies the cost of these is much less than their quoted counterparts although any growth is then for the benefit of SDI shareholders.

The company's subsidiaries operate in growing end markets and this obviously provides the potential for future growth. The appointment of Stephen Brown as CEO in January also appears to be having a positive effect as he has considerable experience in the industry having held senior positions in prestigious global product and technology focused businesses. Despite the prospects at the group, the shares stand on a relatively low rating and we therefore rate them as a **BUY**.



	Year Ending 30 April	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 71.5p	2023	67.6	11.8	9.0	7.9	-	-
Market Capitalisation: £74.4m	2024 (est)	65.9	8.0	5.8	12.3	-	-
2023/24 Share Price Range: 200p/52p	2025 (est)	70.0	10.2	7.4	9.7	-	-
Website: www.sdigroup.com							





Aggressive Growth Portfolio IX

A better performance from the portfolio over the last month has seen it produce the best performance of the year although given the strength of the market overall this should be no surprise. However, it is a little disappointing that despite the increase in value the portfolio still underperformed all of the benchmark indices!

The star performer of the period has been **Renold** the shares of which rose by over 33%! The structural steel company **Billington Holdings** also deserves a mention, with its shares increasing by over 17%.

However, two of the holdings in the portfolio have fallen to their stop-loss limits and have therefore had to be sold. We are particularly disappointed to lose **Alliance Pharma**, but the shares fell to the 30p stop-loss limit and so we had to sell the holding of 12,500 shares. This raised net proceeds of £3,713 and created a loss of £1,198. The company has been forced to delay publication of its 2023 results on two occasions as the auditors have not

completed their work and no date has yet been set for the announcement. This uncertainty has caused the share price to fall although it has now recovered to around 35p which is rather frustrating. A negative press comment in the Philippines regarding a project of **SRT Marine Systems** also saw these shares fall. The sale of 15,750 shares at 25p raised net proceeds of £3,899 and realised a loss of £1,112.

A number of companies made announcements during the period, and these were **JD Sports Fashion**, **Alliance Pharma**, **SRT Marine Systems**, **Epwin Group** and **Renold**. As usual, these are either covered in News Highlights elsewhere in the newsletter or on the website.

A dividend of £58 was received from **Diageo** and after making investments into the two main companies featured this month there is £1,516 on deposit available for investment.

Performance summary

	21 May 2024	16 April 2024	Gain/(Loss) %
Portfolio Value	£50,742	£48,967	3.6
FTSE 100 Share Index	8,416.45	7,820.36	7.6
FTSE All Share Index	4,584.40	4,260.41	7.6
FTSE AIM All Share Index	807.09	738.28	9.3

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
180 Diageo	2767.5	5,056	2751.50	4,953	2400
4,375 JD Sports Fashion	114.35	5,078	120.6	5,276	90
1,200 Billington Holdings	415	5,030	582	6,984	310
1,750 Pets at Home	284.6	5,055	300.6	5,261	225
2,625 Ramsdens	190	5,037	200	5,250	145
5,750 Epwin Group	86	4,994	89.5	5,146	70
11,750 Renold	42	4,984	56.2	6,604	35
7,000 SDI Group	71.5	5,055	71.5	5,005	58
4,500 Sanderson Design Group	105.5	4,794	105.5	4,747	88
£1,516 Cash				1,516	
			TOTAL	£50,742	

Start date: 9 January 2024 with £50,000. Cash includes dividends received of £204.

SDG

105.5p

Sanderson Design Group

SECTOR - AIM - HOUSEHOLD GOODS
RECOMMENDATION - BUY

The decline in the share price of Sanderson Design Group over recent weeks is slightly surprising given the prospects at the group. The recently announced results for 2024 showed the resilience of the group and we believe this is a good entry point for investors.

Sanderson Design Group is an international, luxury interior furnishings company that designs, manufactures and markets wallpapers and fabrics together with a wide range of ancillary interior products such as bedding, curtains, towels and other homewares. The group owns well-known brands including Sanderson, Morris & Co, Harlequin and Zoffany. The products are sold to multiple and independent retailers both in the UK and overseas whilst it has recently introduced a direct-to-consumer online shop. The group also has a rapidly growing licensing business, where its brand names and designs are used by third parties for a fee.

In the year to 31 January, revenues at the group declined slightly to £108.6m in what were challenging trading conditions. Underlying pre-tax profit also fell to £12.2m for earnings per share of 13.7p. The UK saw revenues fall but the growing market of North America saw sales increase and licensing sales rose by an impressive 68% to £10.9m. Although only a small percentage of revenues, the incremental costs of licensing sales are very low so these have an effective 100% margin. The dividend for the year was maintained at 3.5p per share and net cash at the year-end had risen to £16.3m.

The new financial year is likely to see a continuation of the challenging market conditions, but the company is taking action to overcome these. North America and the licensing business are areas of significant potential growth and the group is focused on these. We believe that there is scope for the company to outperform our forecasts as consumer spending in the UK recovers and yet the shares stand on a very modest rating and the company has a very strong balance sheet with significant net cash. **BUY**.

	Year Ending 31 January	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 105.5p	2023	112.0	12.6	14.2	7.4	3.5	3.3
Market Capitalisation: £75.6m	2024	108.6	12.2	13.7	7.7	3.5	3.3
2023/24 Share Price Range: 147p/99p	2025 (est)	114.0	12.1	13.5	7.8	3.5	3.3
Website: www.sandersondesign.group							

News Highlights

EPWN



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.

Epwin Group – 89.5p

The building products group has announced a trading update to coincide with its AGM and this has revealed that trading is in line with expectations despite the challenging market conditions. The company therefore believes it is on track to meet the recently increased market expectations for the full year with adjusted pre-tax profits of £19.5m on the cards for earnings per share of 10.3p. This is a slight increase on our previous forecast and we also believe that the dividend for the year could be increased to 5.1p. The company operates in markets where demand continues to be strong and it has a wide customer base and a broad product range. This will stand it in good stead going forward. The company extended its share buyback programme last month and this should continue to underpin the current share price. The shares stand on a very modest rating and sport an attractive dividend yield. We maintain our recommendation of **BUY**.

Hercules Site Services – 36.75p

The company has issued a trading update covering the six months to 31 March 2024 and this has confirmed that trading continues in line with expectations with revenues for the period likely to be in excess of £47m. This is an increase of 27% on the £37m reported in the same period last year and what is pleasing is that all income streams recorded growth. The company has gained a number of new contracts during the period and signed a new framework agreement with Costain. Future Build Recruitment, which was acquired last December, is integrating well with cross-selling opportunities with the group's existing clients already being seen. The Hercules Construction Academy, which was established in January in the West Midlands is already developing a reputation for first class training and the potential here is obvious given the ongoing skills shortage in the UK. The shares have risen from our original tip at 25.5p last November

and despite the solid progress being made these are now beginning to look expensive on a p/e ratio for the year to 30 September 2024 of around 33x. **TAKE PROFITS**.

Dowlais Group – 72.15p

The specialist engineering group which is focused on the automotive sector has issued a trading update covering the four months to 30 April and this has confirmed that trading conditions remain challenging. Revenues for the period were £1.7bn, down 1.9% on the previous year, due to weakness in the ePowertrain business which more than offset gains in Driveline and the China joint venture. Industry forecasts are for a better performance in the second half of the year although some uncertainty must remain. The group believes that revenue for the year will be slightly below last year although there should be an increase in operating margins which will compensate to some degree. Obviously, given the fact that the share price has now fallen to a record low there must be some thought that the bad news is already in the price. This is probably the case, but with no obvious catalyst to push the shares higher we rate them as a **HOLD**.

TI Fluid Systems – 138.2p

The company has issued a trading update for the three months to 31 March which has confirmed that revenues were slightly down on the same period last year, falling by 2.6% to €847m. This is very much as expected. New orders received during the period were up by 6% to €685m and the group remains on track to achieve its full year forecasts. The shares have fallen back from the recent high of 169p and we believe that this has created a useful buying opportunity. **BUY**.

JD Sports Fashion – 120.6p

The leading retailer of sports and outdoor goods has announced that it is to increase its exposure to the world's largest market with the acquisition of Hibbett, Inc in the US. The latter is a leading sports-fashion retailer in the US operating out of almost 1,200 stores in 36 states and its acquisition will increase the group's exposure to the South-East of the

country where it currently only has limited exposure. In the 53 weeks to 3 February 2024, Hibbett generated revenues of \$1.73bn and pre-tax profits of \$131.6m. The purchase will cost around \$1.1bn. The acquisition is expected to be earnings enhancing in the first year of ownership before cost synergies which are expected to be in the region of \$25m per annum. Shares in the company have drifted lower and we re-iterate our recommendation of **BUY**.

Renold – 56.2p

Renold, the international supplier of industrial chains and transmission products has announced that Renold Couplings has won a contract to manufacture flexible couplings for ships in the Royal Canadian Navy. The contract is worth £10.6m and together with other military orders received recently the order book has increased by £13.1m. The contract will be delivered over the next six years and extends the group's collaboration with Canada in supplying flexible couplings for naval vessels. The manufacture of the couplings for the new contract will take place at the group's facility in Cardiff and will start in mid-2024. The shares were tipped in the April issue of cityconfidential at 42p and so a return of 34% in just five weeks is clearly impressive. However, on a prospective p/e ratio of just 7.4x for the year to 31 March 2024 we believe that there is further to go. Continue to **BUY**.



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