

# cityconfidential

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sorting the bulls from the bears

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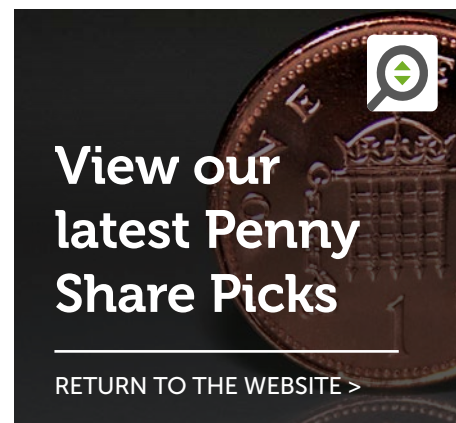
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## Buying on-line?

The news that the online supermarket and technology group **Ocado (298p)** is to delay its expansion programme with its Canadian partner Sobeys Inc has seen the shares fall to the lowest level since 2017. The news took the market by surprise and comes on the back of the news that the company had been demoted from the FTSE-100 Share Index, which had already caused weakness in the share price. Although the news is clearly disappointing, the company has stated that its guidance for the 2024 financial year remains unchanged and it still expects to be cash flow positive in the medium term. The shares stood at 789p last December and we believe that the recent fall in the share price has probably been overdone given the progress that the company is making overall.

Ocado was established in 2000 and consists of

three business segments. The most well-known of these is Ocado Retail, which is now one of Britain's leading online retailers through a 50:50 joint venture with Marks & Spencer. Ocado Logistics is a third-party logistics and fulfilment business, operating in the UK for Ocado Retail and Morrisons Supermarkets. This operates from 12 automated sites using the group's market leading software and technology with the shopping being delivered to the customer using the Ocado Logistics network. The smallest business is the most exciting being Technology Solutions. This is the software and robotics platform business which supplies the Ocado Smart Platform as a managed service to partners around the world. This also includes OIA, a bism to usiness dedicated to selling the group's technology to complex, high-volume warehouse environments in non-grocery

markets. This business is now partnered with 13 retailing groups around the world which have total revenues of some £300bn. These businesses are in Canada, the USA, Japan, Australia and countries in Europe.

Although the business has been going for 24 years and has revenues of £2.8bn it remains loss-making and this seems likely to be the case for some time. However, the technology business has significant growth potential whilst the joint-venture with M & S should also continue to progress. The shares must be risky given the fact that the company remains loss-making, but we believe that there is sufficient faith in the company from investors for the shares to rebound from the current low level. We believe the shares are a trading buy with a price target of 400p. **TRADING BUY.**



## Better to travel than arrive?

There is a well-known stock exchange term that it is better to travel than arrive – so, in short, if investors believe a company's forthcoming results are expected to be good, they will buy in anticipation of these, but are then often disappointed when the shares fail to move higher on the news as all those who wanted to buy the stock are already in. Sometimes though, this can work in reverse.

We believe a case in point may well be the travel company **Mobico (46.28p)**. This company will be better known to readers as the old National Express before it changed its name in the summer of 2023. The company is an international transport group, offering a range of services including long-distance coach travel, shuttle buses, school transportation

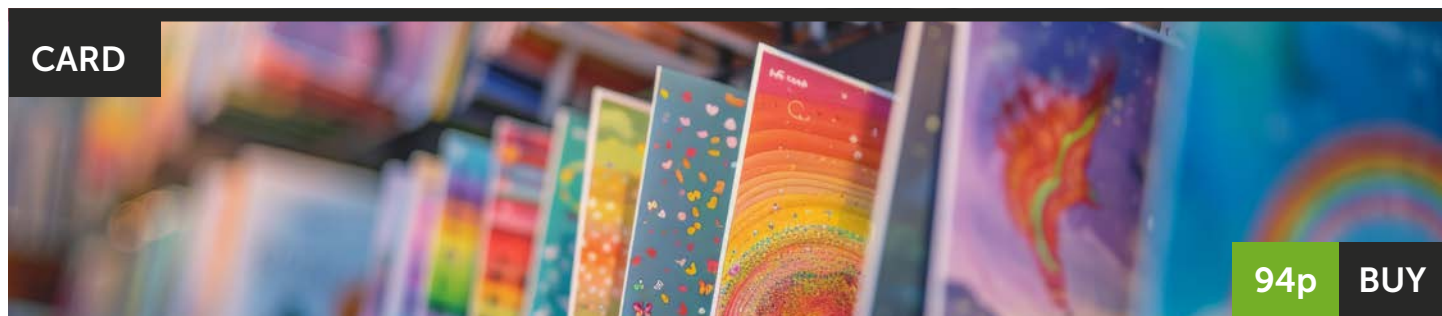
and rail travel. The company operates in 11 countries including the UK, USA, Spain and Germany.

The company has endured difficult times over recent years, with profit warnings, staff shortages, industrial action and cost inflation affecting profitability and the removal of Covid support also having a negative impact. The company has also seen its debts increase significantly. However, the first quarter figures for 2024 showed modest revenue growth of 3.5% to £802m which was in line with expectations, although adjusted operating profit for 2024 is expected to be in the range £185m to £205m which is slightly below previous forecasts.

The result of all the above has been that

the share price of the company has been decimated. From a pre-Covid level of 475p the shares have fallen by 90% and even a year ago the price was around 120p. The company is trying to sell-off its North American business which would reduce debt significantly and, if this was to happen, the effect on the shares would be dramatic. A case of the arrival being better than the journey as we explained at the start.

Three directors have recently purchased over 183,000 shares in the company at prices ranging from 47.9p to 63.5p and this also provides encouragement. We believe that the latest fall in the share price has been overdone and rate the shares a **BUY** with a price target of 70p – the level seen just three months ago.



## Card Factory – 94p

SECTOR - RETAILERS

Shares in the UK's leading specialist retailer of cards, gifts and celebration essentials have fallen back towards the 90p level at which they have often found support in the past as can be seen from the share price chart below. The results for the financial year ending on 31 January showed yet more growth in both revenues and profits, whilst the company restored the dividend payment for the first time since 2020. We believe that the company can continue to grow as it expands its store portfolio and online presence, whilst its growing partnership programme is also opening up new routes to market. Although growth is only likely to be steady rather than spectacular, the shares trade on a low rating, offer an attractive level of income and stand at near the low point of the year. We believe that the shares could justify a rating of at least 9x this year's forecast earnings of 14p, which gives a share price target of 126p.

### Activities

Card Factory is the leading retailer of cards, gifts and celebration products in the UK. The company operates from over 1,000 stores in the UK and Ireland, and these are the core of the business with further sales online whilst the group has also developed partnerships with retailers including Matalan and Aldi. The group operates a vertically integrated business model so that it designs and produces the majority of the cards that it sells. Some 80% of cards and 70% of gifts and celebration essentials are designed in house. As at April 2024, there were 80 designers employed by the company with the manufacturing carried out at the Printcraft print facility in Baildon, Yorkshire which can produce 270 million cards per annum. New ranges can be delivered in just four weeks with quick selling lines being remanufactured in days. As well as cards, the company also sells gifts such as toys, candles, homewares and stationery as well as celebration products which include balloons, gift wrap and bags and other party products.

The company has an online presence with the websites [cardfactory.co.uk](http://cardfactory.co.uk) and [gettingpersonal.co.uk](http://gettingpersonal.co.uk) and these have been reorganized so that both websites now utilise a common technology. These are also at the forefront of the company's move to be an omnichannel business following the successful rollout of the Click & Collect service in the last financial year – this allows customers to order online and then collect the goods from a local store.

Apart from the UK operations, the company also has exposure to overseas markets through partnership agreements such as those with The Reject Shop in Australia and Liwa in the Middle East. The company has also gained exposure to South Africa through the acquisition of SA Greetings which has added 6,500 partnership distribution points as well as company owned and franchised Cardies stores.

The company believes that the UK market for greetings cards is worth some £1.4bn per annum with the celebrations essentials worth another £2bn and the gifts market another £10bn. Thus, there is significant scope for expansion as the group moves into other areas apart from the core business of greetings cards.

### Financial

In the year to 31 January, the group recorded revenues of £511m (2023: £463m), an increase of 10.3%, whilst adjusted pre-tax profits increased by 27% to £62.1m (2023: £48.9m). Earnings per share on the same basis rose by 11.6% to 13.5p (2023: 12.1p) and the dividend was reinstated at

4.5p per share. Net debt excluding leases fell by almost 40% to £34.4m (2023: £57.2m).

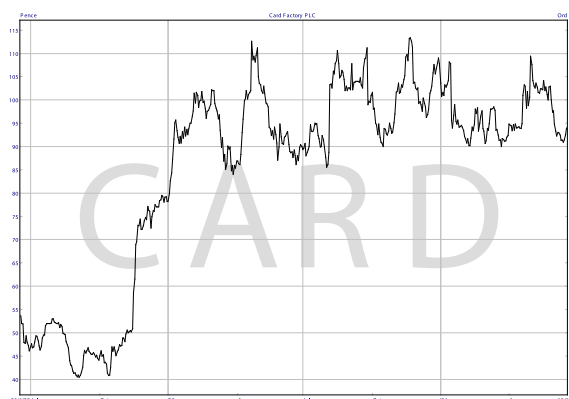
These were very solid results reflecting the positive momentum in the business with total store revenue rising by 8.7% including the contribution from the 26 net new store openings during the year. The store evolution programme aims to optimise the layout of stores so that the company can gain the maximum contribution from the different categories of cards, gifts and celebration essentials. All the group's three product ranges saw increases in revenue and, although [cardfactory.co.uk](http://cardfactory.co.uk) sales were only up by 0.4% on a like-for-like basis, the second half saw a much better performance with sales up 11.4% as improvements in the website began to be realised. The results benefited from an increase in profit margins, helped by improved efficiencies and targeted price increases.

### Outlook

The company is now three years into its 'Opening our New Future' strategy and is a much stronger business both operationally and financially. The medium-term target is that by the financial year 2027 the group has revenues of £650m, pre-tax profit margins of 14% and another 90 new stores. If these objectives can be achieved, then the implied pre-tax profit would be around £90m with earnings per share of some 19p. This would put the shares on a very modest p/e ratio although it must be remembered that these are only targets, and these are three years away. The company believes it is on track to meet these targets, however, with the current financial year starting well with trading so far being in line with expectations.

The company will continue to expand its product range in gifts and celebration essentials including its own brand ranges as well as the introduction of new licenced ranges. The current year is also expected to see an increase in the number of stores with a similar number being added as last year. The Click & Collect service has been well received and there should be major improvements in the results of the online business as the websites are improved. Overseas, the company has identified seven territories of interest for expansion, and these are the US, Canada, Middle East, India, Australia, New Zealand and South Africa. The company is represented in some of these regions already but there is clearly scope for further expansion.

Although profits are expected to be weighted towards the second half of the financial year, the shares look to be good value, having fallen from 109.5p at the end of April. On a low rating and attractive dividend yield the shares are a **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: 94p	2023	463	48.9	12.1	7.8	-	-
Market Capitalisation: £323m	2024	511	62.1	13.5	7.0	4.5	4.8
2023/24 Share Price Range: 114p/85p	2025 (est)	540	65.0	14.0	6.7	5.5	5.8
Website: <a href="http://www.cardfactoryinvestors.com">www.cardfactoryinvestors.com</a>							



## Aggressive Growth Portfolio IX

After a good performance last month, it is disappointing to see that the portfolio has lost ground again this month. Although the market has given up some ground as can be seen from the table below, the portfolio has underperformed all of the benchmark indices.

A disappointing feature of the portfolio's performance is that only shares in **Epwin Group** and **Renold** have risen during the period with the remainder of the shares falling in value. The largest faller of the month has been **Billington Holdings** with the share price down some 16% at 490p. Despite this, the shares remain on a large profit although in hindsight we should have taken some of this last month.

Following our experience with **Billington Holdings**, we have decided to take some of the profit on **Renold**. Although the shares have been up to 64.75p we think that to reduce the holding slightly is prudent at this stage. We have therefore sold 2,250 shares at 58p to raise net proceeds of £1,292 and realise a profit of £337. We are happy to retain the remaining 9,500

shares for the time being.

As we stated when we launched the portfolio we intend to be more aggressive in our management and have therefore sold the holding of 180 **Diageo** shares at 2558p. The shares have failed to perform since they were purchased and although the company is of undoubted quality there is no sign that they are about to move up any time soon. The sale has realised net proceeds of £4,558 for a loss of £498.

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

A dividend of £161 was received from **Epwin Group** and after making investments into the two main companies featured this month there is £228 on deposit available for investment.

### Performance summary

	18 June 2024	21 May 2024	Gain/(Loss) %
Portfolio Value	£48,650	£50,742	(4.1)
FTSE 100 Share Index	8,191.29	8,416.45	(2.7)
FTSE All Share Index	4,467.95	4,584.40	(2.5)
FTSE AIM All Share Index	778.32	807.09	(3.6)

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
4,375 JD Sports Fashion	114.35	5,078	117.85	5,156	90
1,200 Billington Holdings	415	5,030	490	5,880	310
1,750 Pets at Home	284.6	5,055	298	5,215	225
2,625 Ramsdens	190	5,037	195	5,119	145
5,750 Epwin Group	86	4,994	91	5,233	70
9,500 Renold*	42	4,029	58	5,510	35
7,000 SDI Group	71.5	5,055	65	4,550	58
4,500 Sanderson Design Group	105.5	4,794	101.5	4,568	88
3,850 Card Factory	94	3,673	94	3,619	80
1,575 Legal & General	226.8	3,626	226.8	3,572	200
£228 Cash				228	
			<b>TOTAL</b>	<b>£48,650</b>	

Start date: 9 January 2024 with £50,000. Cash includes dividends received of £365. \*After part disposal.

LGEN

Legal & General

226.8p

SECTOR - LIFE ASSURANCE  
RECOMMENDATION - BUY

We believe that shares in Legal & General are worth a look following the capital markets day recently. This has outlined the group's strategy for the next few years with one of the key points being that the group intends to increase returns to shareholders through a combination of increased dividends and share buybacks. However, the initial reaction to the statement was pretty negative with the shares falling on the news but we feel that this is rather unfair and that this has created a buying opportunity.

As most readers will be aware, Legal & General is one of the UK's leading life assurance companies and a major global investor. The new strategy at the group will see a focus on three core divisions being institutional retirement, asset management and retail. The company is a leading player in the pensions market both in the UK and overseas, yet it believes

that there are significant growth opportunities here as only some 10% of Defined Benefit pension assets in the UK, USA, Canada and the Netherlands have transferred to insurers. The company is merging its two current asset management businesses into a single global manager with scale whilst the retail business will focus on retirement and savings.

It is difficult to comment sensibly on the rather opaque accounts of financial companies such as this but the key point for many investors and a leading driver of the share price is the level of the dividend. This has increased steadily over recent years (the last cut was 15 years ago) and is forecast to rise by another 5% this year to 21.35p per share. This would put the shares on a dividend yield of 9.4% which is clearly attractive with interest rates expected to fall going forward. The recent capital markets day then confirmed the intention to increase dividends by 2% per annum until 2027 which disappointed some analysts. A £200m share buyback may not do much for the share price but the shares look good value for income seekers and for those looking for a short-term trade. The shares have dropped from 253.5p on 6 June and we rate them as a BUY with a 250p price target.

	Year Ending 31 December	Adjusted Operating Profit (£bn)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
Share Price: 226.8p	2022	1.67	12.8	17.7	19.37	8.5
Market Cap: £13.6bn	2023	1.67	7.3	31.1	20.34	9.0
2023/34 Share Price Range: 268p/205p	2024 (est)	1.75	8.6	26.4	21.35	9.4
Website: <a href="http://www.legalandgeneral.com">www.legalandgeneral.com</a>						

# News Highlights

## Pets At Home



298p

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.

## Ramsdens - 195p

In the six months to 31 March, gross revenues increased by 12% to £43.8m with pre-tax profits up 8% at £4.0m. Earnings per share only increased marginally to 9.0p (2023: 8.9p), but this was due to a higher tax charge this year and the interim dividend was increased 9% to 3.6p per share (2023: 3.3p per share) which is perhaps a better reflection of the progress that has been made. Net cash fell by £1.2m during the period to £3.8m following investments in new stores, dividend payments and an increase in the pawnbroking loan book. The group opened five new stores during the period and at the period end it had 167 stores. All parts of the business are doing well and the second half of the year has also started in positive fashion with four more stores expected to open before the end of the financial year. We maintain our forecasts of pre-tax profits of £10.7m and earnings per share of 25.9p for the year ending 30 September. This leaves the shares on a modest p/e ratio of just 7.5x and, if the dividend is raised to 11p per share, the dividend yield will be 5.6%. We maintain our recommendation of **BUY** with a share price target of 260p.

## Pets at Home – 298p

The UK's leading pet care business has announced annual results to 28 March with revenues increasing by 5.2% to £1.5bn although underlying pre-tax profits declined by 3.2% to £132.0m. Earnings per share on the same basis were 9% lower at 20.7p although the dividend for the year was maintained at 12.8p per share. The fall in profits was mainly due to the group's retail operations where a fall in discretionary spending by customers on accessories had a negative impact. Net cash at the year-end was £8.8m. The new financial year has seen an increase in revenues at the Vet business, although retail sales are down by 2%. The latter are expected to recover going forward and the group is happy with forecasts of underlying pre-tax profit of £144m for the year. This would give earnings per share of

around 22.8p. The company is planning to buy back another £25m of shares this year, having bought £100m of shares over the last two years. The current year will benefit from the launch of the new digital platform for customers whilst the vet business also continues to grow. As we mentioned in our original tip, the shares hit 398p last July and we believe a move up towards that level is on the cards. **BUY**.

## Norcros – 220p

In the year to 31 March, the supplier of bathroom and kitchen products saw revenue fall by 11% to £392.1m with adjusted pre-tax profits declining by 13% to £36.4m. Diluted underlying earnings per share fell by 14% to 32.1p although the annual dividend was maintained at 10.2p per share. These are very creditable results given the challenging trading conditions, notably in the South African business which suffered from significant energy problems. The company is now the largest supplier of kitchen and bathroom products in the UK and Ireland and the second largest in South Africa. The company operates in the mid-premium market sector, which has proved resilient, and the company is well placed to benefit from its strong market position moving forward. Assuming a modest recovery in the group's fortunes this year, the company could make underlying pre-tax profits of £37.8m for earnings per share of 33.0p. This would put the shares on an undemanding p/e ratio of just 6.7x with a small increase in the dividend to 10.4p per share resulting in a dividend yield of 4.7%. Last recommended at 184p in April, the shares remain too cheap and rate as a **BUY**.

## JD Sports Fashion – 117.85p

The company has announced its results for the 53 weeks to 3 February, with revenues rising to £10.5bn with adjusted pre-tax profits coming in at £917.2m. On a like-for-like basis, as the previous year was a 52-week period, revenues rose by 2.7% although adjusted pre-tax profits fell by 7.5%. Adjusted earnings per share fell by 9.1% to 12.14p and the dividend per share increased by 12.5% to 0.9p. At the end of the year, the group had 3,317 stores around the world. Net cash at the end of the year was

£1.03bn although this has nearly all been used in the purchase of US group Hibbett, Inc. The first quarter of the current financial year has seen trading in line with expectations and the company is maintaining its guidance for adjusted pre-tax profits of between £955m and £1,035m. Clearly the shares are of little use to income seekers given the very low level of dividend, but they stand on a relatively modest p/e ratio of under 10x for the year just ended and with profits expected to increase in the current financial year they remain good value. We re-iterate our share price target of 155p and rate the shares a **BUY**.

## Northern Bear – 62.5p

The company has announced that CEO John Davies has purchased 24,594 shares in the company at 61p. This follows on from the purchase of 45,000 shares by non-executive director Martin Boden at 60p on 17 May. As we stated in our last comment on 7 May, the company does not intend to announce its results for the year to 31 March until the week commencing 15 July and so the shares may remain pretty static until then. We maintain our recommendation of **LONG-TERM BUY**.



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