

cityconfidential

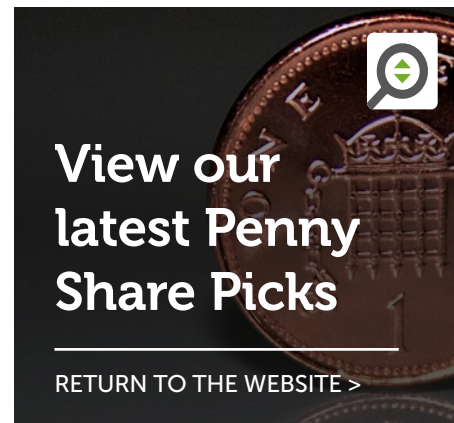
sorting the bulls from the bears

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What a pest!

Last week's trading update from the pest control group **Rentokil Initial (364p)** has seen the share price of the company collapse to its lowest level since 2020. The company has warned that a slowdown in the American market, which generates over 50% of revenues, would lead to much lower profits than previously expected. The statement clearly took the market by surprise with the share price falling by 20% on the day of the announcement as it fell from 475.5p to 380.1p. As can be seen, however, the share price has not fallen much since then and so we believe that there is scope for a short-term bounce as most investors who wish to sell should have now done so.

As most readers will know, Rentokil Initial is a world leader in pest control offering services to customers around the world to control pests

from rodents to flying and crawling insects. The company also offers hygiene and well-being services for commercial customers around the world, and these include washroom hand dryers, sanitisers and similar products.

The company made a large acquisition in 2022 when it purchased the US group Terminix Global Holdings for US\$6.7bn and this increased the group's exposure to the North American pest control market. Some analysts thought at the time that the group had overpaid for the business and these concerns now seem to be coming home to roost.

The integration of Terminix has not gone well and slowing growth in North America together with increased costs has led to the profit warning with forecasts for adjusted pre-tax profits for the year to December now reduced

to some £700m from £780m previously. This is the third time in the last year that the company has warned on profits on its North American business and whilst the other parts of the group appear to be trading satisfactorily it is North America which makes the most money.

The fall in the share price has reduced the p/e ratio on the company to around 17x based on the reduced forecasts and whilst this is hardly bargain-basement territory it is historically low for the group. Assuming some recovery comes through next year, the shares may begin to look cheap and yet in the meantime the company could become a bid target for private equity with Nelson Peltz, the activist investor taking a stake. The shares are a **SPECULATIVE BUY**.



Under pressure

We believe that shares in the Sheffield-based specialist engineering group **Pressure Technologies (29.5p)** could be worth a look following the recent share price action which has seen the share price fall to its lowest level this year. The company has suffered from challenging markets over recent years whilst historic accounting issues delayed the publication of the results for the year to 30 September 2022. The shares have therefore fallen from a price of around 145p pre-Covid to the current low level, but there are now grounds for believing we are close to the bottom.

The group operates through two divisions. Chesterfield Special Cylinders (CSC) is a leading provider of high-pressure gas containment solutions and services, and its gas cylinders are used in a number of applications in the

oil and gas, defence and other sectors. Thus, the cylinders are used in submarine ballast systems, as breathing air cylinders for diving systems and as ultra large air pressure vessel systems for deep-water offshore platforms. More recently, the business is seeing growth in demand for hydrogen storage, and this is seen as a growing market. The Precision Machined Components (PMC) division supplies a range of products such as ball valve components and its companies work with challenging materials and exotic alloys.

Back in November 2022, the group decided that it would make sense to divest the PMC division so that it could focus on the CSC business which it believed had better long-term prospects. The divestment process was halted in 2023 as the business recovered although it was put up for sale again in

December last year. At the time of the most recent results, covering the six months to 31 March 2024, the group announced that it had identified a buyer for the business and the sale was expected to proceed with completion in August. Net debt at the end of March was £3.3m and the sale of PMC is likely to lead the group into a net cash position. The group can then focus on the growth prospects at CSC, notably in the hydrogen business.

Although no sale has been announced yet, these things have a habit of taking longer to complete than expected and the announcement of a sale is likely to see a useful bounce in the share price. We therefore believe that the shares are a **SPECULATIVE BUY**.



Anpario – 315p

SECTOR - AIM - PHARMACEUTICALS & BIOTECHNOLOGY

It is some time since we have covered the natural animal feed additives group **Anpario** in detail, but the recently announced interim results revealed significant growth in profits and earnings per share and we feel that now is a suitable time for investors to move into the shares. We have followed the company for many years, and it operates in an important and growing market which puts it in a good position to make further progress. The shares peaked at over 700p in 2021 before challenging conditions in the global agricultural industry caused revenues and profits to fall. The latest results provide some evidence that these conditions are now improving and a confident statement by the company adds to our confidence that the shares can recover strongly.

Activities

Anpario is an independent international manufacturer and distributor of natural feed additives for animal health, nutrition and biosecurity. The group's specialist feed technologies are both innovative and tailored to meet the ever-increasing population requirements for healthy food. The main focus of the group is to understand animals' intestinal health and nutrition so that it can help its customers, who own the animals, achieve optimal animal performance thus boosting profitability. The group's products are mainly used in animal food for poultry, swine and cattle. The improvement in animal performance can be measured by greater resistance to disease and lower mortality rates, with other benefits including higher milk yields, extended egg lay periods, daily weight gain and improved fertility. These factors help to increase customers' profitability and thus drive demand for the group's products. The company works with key global research institutions and universities to innovate and shape the feed additives. These additives, which mainly consist of natural powder and liquid feed, are manufactured and distributed at the group's UK plant at Manton Wood at Worksop in Nottinghamshire. The group's products are sold in over 80 countries through established sales and distribution networks, which include a number of wholly-owned subsidiaries in key markets around the world. Smaller customers can purchase products directly from the company through the internet using Anpario Direct.

Financial

The latest financial year to last December saw a decline in both revenues and profits due to challenging conditions in the global agricultural industry. The year saw a number of events that affected energy, agricultural commodity and specific raw material prices which put pressure on the group's customers who were also adversely affected by reduced consumption and increased competition. With the industry starting the year with excess inventory due to overstocking in 2022 following supply chain issues, demand for the group's additive products declined. The result was that group revenues fell to £31.0m (2022: £33.1m), with adjusted pre-tax profits falling to £3.46m (2022: £4.10m). Diluted earnings per share on the same basis fell to 15.3p (2022: 16.7p) although the dividend for the year was increased to 10.7p per share (2022: 10.5p). Despite returning £9.0m to shareholders through a share buyback completed in July 2023, the group's strong cash flow allowed it to end the year with net cash balances of £10.6m (2022: £13.6m).

The last quarter of 2023 saw an improvement in trading with sales volumes and gross margins increasing. This has continued into 2024 with the interim results to 30 June showing a significant improvement over 2023.

Revenues for the period increased to £17.0m (2023: £15.3m) with gross margins also increasing to 47.5% (2023: 43.9%) and this allowed adjusted pre-tax profits to increase to £2.25m (2023: £1.48m). Diluted earnings per share on the same basis rose to 10.4p (2023: 5.7p) and the interim dividend was increased to 3.25p per share (2023: 3.20p). Net cash at the year end rose to £13.5m (31 December 2023: £10.6m).

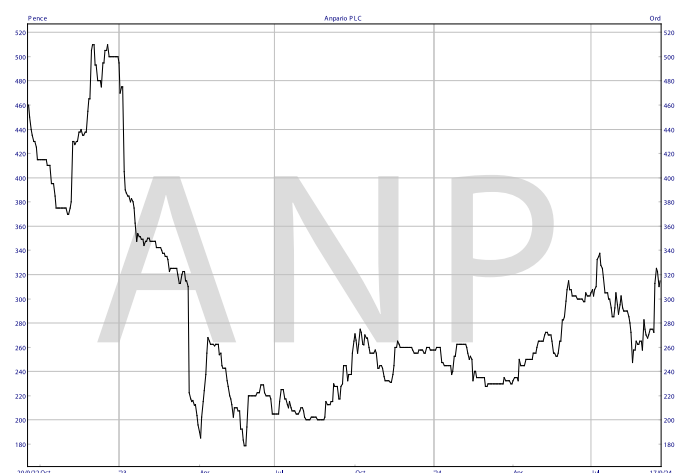
The period saw strong sales growth in most regions, notably the Middle East business (which also includes Africa and India), although sales declined in the USA. This was due to margin pressure on US pork producers as well as a reduction in sales of the group's Orego-Stim® product as customers switched to cheaper alternatives. The group hopes to regain some of these lost sales. The business in Asia, which is the largest for the group representing 36% of group sales, saw revenues increase by 15% which was clearly encouraging especially as there are signs that the pig market in China is improving.

Outlook

The second half of the year has started well with an acceleration of sales and volume growth driven by continued demand for the group's premium products and a recovery in volume in some of the group's more price sensitive products as the global agriculture environment improves. This more positive outlook for the industry is encouraging producers to increase their use of speciality feed additives, thus driving demand for the group's products. There are still some challenges relating to shipping schedules and logistics, whilst in the USA there is a potential dockers strike although the company is used to dealing with such challenges.

The improvement seen so far in the second half of the year is expected to continue with the recovery in volumes helping to improve profitability due to recovery of fixed production overheads. Market conditions in both China and the USA are expected to improve which will also be of benefit. The group believes that a move away from antibiotics to its natural feed additives is essential to curb the spread of drug-resistant 'superbugs' and the group is well placed to benefit from this.

The company has a strong balance sheet boasting significant net cash which provides considerable reassurance for investors and with growth now seemingly back on the agenda we rate the shares 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: 315p	2022	33.1	4.10	16.7	18.9	10.5	3.3
Market Capitalisation: £63m	2023	31.0	3.46	15.3	20.6	10.7	3.4
2023/24 Share Price Range: 500p/179p	2024 (est)	33.8	4.35	19.7	16.0	11.0	3.5
Website: www.anpario.com							

Aggressive Growth Portfolio IX

It is pleasing to report that the portfolio has increased in value for the third month in a row, especially as it has outperformed all the benchmark indices on each occasion. The rise of 5.2% over the last five weeks is the best monthly performance of the year so far and is especially impressive given the relatively pedestrian performance of the benchmark indices.

The best performing share over the period was **JD Sports Fashion** which rose in value by 31.3% as the share price moved up to 159.7p. Regular readers will know that we originally purchased the shares for the portfolio in January at 114.35p meaning that they have gained some 40% for us since our original recommendation. We commented in June that our share price target was 155p and having achieved this we have therefore sold the holding of 4,375 shares at 159.7p, raising net proceeds of £6,917. This generated a profit of £1,839 on our original investment.

Shares in **Just Group** were only tipped two months ago at 112.6p but an increase in the share price of 22% since then is too good to ignore and we have therefore also sold this holding at 137.4p. The disposal of 3,100 shares raised net proceeds of £4,216 for a gain of £673. We continue to believe these shares have further to go but have sold due to the fact that we need to raise some liquidity.

There have been a number of announcements this month and these were from **JD Sports Fashion**, **Billington Holdings**, **Epwin Group**, **Renold** and **Journeo**. These are covered in News Highlights or on the website.

We received a dividend of £47 from **Renold** during the period and, after investing in the two main companies featured this month, there is £2,677 left on deposit available for investment.

Performance summary

	17 September 2024	13 August 2024	Gain/(Loss) %
Portfolio Value	£54,115	£51,418	5.2
FTSE 100 Share Index	8,309.86	8,235.23	0.9
FTSE All Share Index	4,541.00	4,500.11	0.9
FTSE AIM All Share Index	744.74	767.98	(3.0)

Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200 Billington Holdings	415	5,030	515	6,180	310
2,625 Ramsdens	190	5,037	220	5,775	145
5,750 Epwin Group	86	4,994	99.5	5,721	70
9,500 Renold*	42	4,029	56.8	5,396	35
7,000 SDI Group	71.5	5,055	58.2	4,074	58
1,575 Legal & General	226.8	3,626	228.4	3,597	200
1,750 Journeo	227.5	4,021	301	5,268	185
2,000 NWF Group	170	3,434	161.5	3,230	145
1,600 Portmeirion Group	212.5	3,434	222.5	3,560	175
1,500 Anpario	315	4,772	315	4,725	245
2,400 Eurocell	163	3,971	163	3,912	135
£2,677 Cash				2,677	
			TOTAL	£54,115	

Start date: 9 January 2024 with £50,000. Cash includes dividends received of £979. *after part disposal.

ECEL

163p

EUROCELL

SECTOR - CONSTRUCTION & MATERIALS
RECOMMENDATION - BUY

The recently announced interim results from the building products group **Eurocell** have revealed a significant increase in pre-tax profits despite the fact that revenues fell slightly. This was due to lower input costs and improvements in margins. Strong operational cash flow meant that net debt at the period end was £4.3m compared with net cash of £0.4m at the start of the year, but the company has returned £10m to shareholders during the period through a share buyback as well as paying dividends worth £3.8m. Further progress at the group is expected going forward and yet the shares only stand on a modest rating.

Eurocell is the market-leading UK manufacturer, distributor and recycler of innovative window, door and roofline PVC products. The company operates through two divisions. The Profiles Division manufactures extruded rigid PVC profiles and foam PVC products. Rigid PVC profiles, which can include recycled PVC compound produced at the group's recycling facilities, are sold to third party fabricators who produce a range of products including windows, patio doors and conservatories.

The division also includes Vista Doors, a manufacturer of composite and PVC entrance doors. Foam PVC products are used for roofline and are supplied to customers through the group's branch network in the Building Plastics Division. The latter distributes a range of Eurocell manufactured and branded foam PVC roofline products as well as Vista Doors and ancillary products such as sealants, drainpipes and composite decking supplied by third parties. The company has 214 branches around the country.

In the six months to 30 June, revenue declined by 5% to £176m, although adjusted pre-tax profit rose by 33% to £8.0m. Earnings per share on the same basis were 30% higher at 5.6p and the interim dividend was raised by 10% to 2.2p per share. The decline in revenue was largely due to a weaker RMI (repair, maintenance and improvement) market. Margins increased though due to lower PVC prices and energy costs.

The company has a five-year plan to increase revenues to £500m with an operating margin of 10% compared to just 5% last year. It also aims to increase its network of branches to 250 over this period. The expected growth over the next two years would be a positive step in this direction. Having completed a £10m share buyback in the first half, the company has announced another £5m buyback which should help the share price and we therefore rate the shares 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: 163p	2023	365	15.2	11.0	14.8	5.5	3.4
Market Capitalisation: £170m	2024 (est)	355	22.0	15.8	10.3	6.2	3.8
2023/24 Share Price Range: 166p/106p	2025 (est)	370	27.0	19.6	8.3	7.7	4.7
Website: www.investors.eurocell.co.uk							

News Highlights

Billington Holdings



515p 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.

Billington Holdings – 515p

In the six months to 30 June, revenue fell slightly by 3.7% to £57.9m, although pre-tax profit increased by 0.9% to £4.64m. Earnings per share declined by 4.2% to 27.6p and no interim dividend was declared in line with previous years. Net cash at the end of the period was at a similar level to last December at £21.9m. These are very solid results, as the first half of 2023 was a record for the group, and it is pleasing that all the group's subsidiaries made solid progress. The company won a number of new contracts during the period resulting in a record order book at 30 June and the second half is expected to be strong due to the timing of deliveries on certain significant contracts - these are expected to benefit the first half of 2025 as well as the rest of this year. Pre-tax profits for the full year are therefore likely to be more than double those recorded in the first half given the increase in revenues and we are therefore forecasting £9.5m for the year for earnings per share of some 57p. With a strong balance sheet with significant net cash and further growth still to come we continue to rate the shares as a **BUY**.

TI Fluid Systems – 168p

The company has announced that it has received two proposals from Canadian group ABC Technologies Inc for a possible takeover of the company with a cash offer of 165p per share being received on 22 August and a further, improved offer of 176p per share being received on 4 September. The Board of TI has rejected both proposals as not reflecting the value of the company, and we agree with this view. We last commented on the shares on 8 August when we rated the shares as a buy at 127p as they were standing on such a low rating. If the company can achieve our forecast of earnings per share of 22p per share for the year, then they still look cheap at current levels. ABC Technologies has got until 12 October to announce whether it is to make

an offer or not and at what price. We agree with the Board that the current proposed offer is too low and that shareholders should take no action. **HOLD**.

Renold – 56.8p

The industrial chains and power transmission group has released a trading update covering the five months to 31 August with trading being in line with expectations. Revenues for the period were down 2.3% at £102.3m compared with 2023 with uncertainty in the group's end markets being a factor in this. Order intake during the period was up 14% over last year at £105.5m and this clearly bodes well for the future and the order book at 31 August of £85.5m remains close to an all-time high. The company has also announced the acquisition of US/Canadian group MAC Chain Company Ltd for US\$31.4m. The latter is a manufacturer and distributor of high-quality conveyor chain and ancillary products with a significant presence in the forestry and industrial markets. The acquisition strengthens the group's exposure to both Canadian and Western US markets especially in forestry which has been identified as a growth market for the group. Following this acquisition, we have increased our pre-tax profit forecast for the current financial year to £23m for earnings per share of 8p. The shares look cheap, and we maintain our recommendation of **BUY**.

Synectics – 255p

The security and surveillance group has revealed in a trading update following the end of its third quarter to 31 August that trading has been very strong and results for the year to 30 November are therefore expected to be much better than expectations. The company has continued to pick up new business with yet another contract worth \$1.2m being announced - this is for a new security and surveillance system at a casino resort in the Philippines, whilst the company has also announced it has won more business with Saudi Aramco and a new strategically important order for a casino resort in Cambodia. Although the company believed that market expectations were for adjusted

pre-tax profits for the year of £3.5m, we had increased our forecast following the interim results to £4.0m and are happy to retain this level for the time being. This would give earnings per share of 19p and, although the shares have moved up on the news, we think further growth looks assured for next year and that the shares are still a **BUY**.

Manx Financial Group – 17p

The company has announced that it has acquired the remaining 49.9% of Payment Assist that it did not own through an agreement with the vendors - this is a surprise move as the balance of the business was not due to be acquired until 2027. The purchase of the business now for £5m should save Manx up to £4m and we believe that this is a significant move for the group. As Payment Assist will be wholly owned, Manx will gain the full benefit of this ownership, and this will significantly improve the profitability of the group. Shares in the company have hardly moved on the announcement although we believe that once investors appreciate the significance of the purchase the shares could rise strongly. In common with many small companies on AIM, the share price of the company only tends to move on the announcement of results and with the interim results due imminently this may highlight the attractions of the shares. **BUY**.



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