cityconfidential

sorting the bulls from the bears

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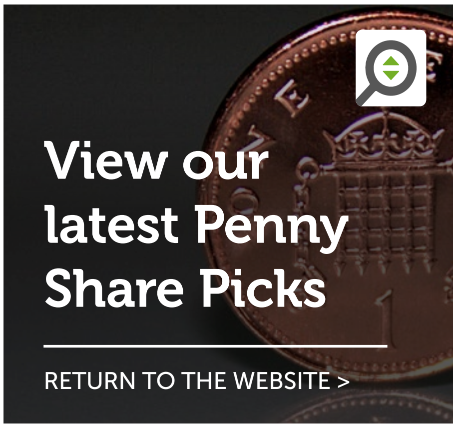


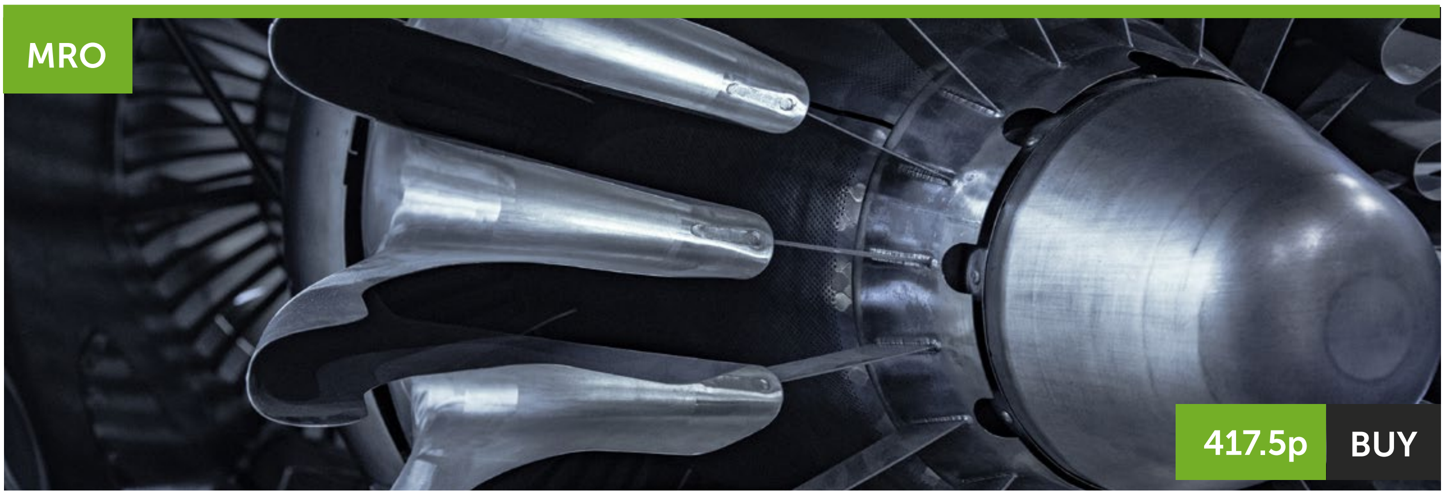
Plastic recovery?

We last commented on the plastics group Coral Products (5.38p) back in January when we recommended the shares as a sell following a disappointing trading statement. At the time, the share price was 12p and so given the fact that they have more than halved since then this was clearly sound advice.

The company issued its annual results for the year to 30 April last month and these revealed a reduction in both revenues and adjusted pre-tax profits as had been expected. The share price fell to 9.25p on the announcement as the company warned that trading continued to be challenging. However, a further deterioration in the trading outlook has forced the company to issue another statement this week and this has seen the share price plunge. The latest statement reveals that the company has experienced reduced levels of orders from some of its key customers and this is having a severe impact on profitability. The company is at pains to insist that it has not lost customers but that these customers have seen a downturn in some of the markets in which they operate, with no sign of improvement in the short-term.

Although the company has lost revenue on the back of these delayed orders, it has offset this partially through new contracts that have been won following the investment of £3m on new machinery. However, these new revenue streams are in lower margin products and so although revenues for the year to 30 April 2025 are expected to be at a similar level to last year at around £31m, the group now expects to make a loss for the year. It is too early to say when recovery in the group's markets will be seen, although the company appears well-placed to benefit from any such improvement following the restructuring of the business over recent months.

The company has continued to invest in its manufacturing capabilities which will clearly be of benefit as and when recovery is seen in its end markets. The sale of surplus property and sale and leaseback of a factory used by the group has also released cash into the business. Although not without risk, we believe that for long-term investors the shares are a SPECULATIVE BUY.



Set to fly higher!

Shares in Melrose Industries (417.5p) have fallen sharply since they peaked at 680p at the beginning of April with the decline now representing a fall of 38.6%. Even at the end of July, the share price stood at 590p. The announcement of the group's interim results, covering the six-month period to 30 June then saw another sharp decline in the share price despite the fact that the results came in ahead of management expectations.

The company was until relatively recently an aggressive acquirer of underperforming businesses which it would take over, improve and then sell at a profit, returning the proceeds to investors. This proved a successful strategy, and the company made its shareholders a lot of money over the years. However, the founding directors of the business have now left, and the company is now effectively what used to be the old GKN Aerospace business. Having acquired GKN some years ago, Melrose disposed of the other parts of the business when it demerged Dowlais last year.

The interim results of Melrose to 30 June revealed a 12% increase in revenue to £1.74bn, with the adjusted pre-tax profit rising 52% to £204m. Diluted earnings per share on the same basis rose by 59% to 11.9p. The results benefited from an increase in margins and the interim dividend was raised 33% to 2p per share. Net debt increased during the period by £404m to £976m, although of this some £292m was paid to shareholders in share buyback and dividend payments.

The company has maintained its previous guidance for the year to 31 December with operating profit estimated to be at least £550m – this should leave adjusted pre-tax profits of some £470m for earnings per share of 27.5p. This would put the shares on a p/e ratio of 15.2x and we believe that this provides scope for a re-rating. The company has also announced a share buyback programme which will entail spending £250m on its own shares over the next eighteen months.

The decline in the share price has been too severe in our view and we therefore rate the shares as a buy with a share price target of 495p, being 18x this year's forecast earnings. That would represent a gain of over 18.5% on the current price. BUY.

Supreme – 162p

SECTOR - AIM - PERSONAL CARE, DRUG AND GROCERY STORES

The recent fall in the share price of this manufacturing and distribution group looks to have presented investors with a useful buying opportunity. The company produced record results in the year to 31 March and the AGM statement last month showed that this positive momentum has continued into the current financial year. The group further diversified its offering in June with the acquisition of Clearly Drinks and the fact that it has a strong balance sheet boasting net cash will facilitate further acquisitions going forward. Despite this, the shares stand on a very modest p/e ratio and we think that they are too cheap with scope for recovery to just above the recent high of 208p.

Activities

Supreme is a leading manufacturer, brand owner and distributor of fast-moving consumer goods and these are sold through its 3,000 active business accounts, which manage over 10,000 branded retail outlets. Customers include B&M, Poundland, Asda, Sainsbury, Londis, Spar, Booker and HM Prison & Probations Service.

The group's products span a number of different categories.

Batteries (18% of sales) - the group services over 30% of the UK market, supplying over 50,000 retail, wholesale and independent and online outlets with over 300 million batteries per annum. Brands supplied include Duracell, Panasonic, Energizer and JCB. **Lighting (7% of sales)** - the group supplies light fittings, light bulbs and torches under brands including Energizer and Eveready. **Vaping (38% of sales)** - the company carries a full range of vaping products and consumables to allow retailers to quickly and easily enter the fast-growing vaping market. Through its in-house manufacturing facility, the company produces some 300,000 bottles of premium e-liquid a day. **Sports Nutrition & Wellness (8% of sales)** - this supplies protein bars, drinks and snacks, as well as supplements and vitamins. All the nutrition brands have an online presence as well as being sold in many high street discount stores and other retailers. **Branded Distribution (29% of sales)** – this includes those vaping products where the brand is not owned by Supreme as well as laundry and cleaning products and toiletries. **Drinks** - The drinks business, Clearly Drinks Limited, was acquired in June 2024 for net cash consideration of £15m. The business is a brand owner and manufacturer of soft drinks and bottled-at-source spring water in cans, glass and plastic bottles and these are supplied to around 70 retailers in the UK including Tesco, Sainsbury, Waitrose and Aldi. The brands owned include Perfectly Clear, Northumbria Spring and Revolution Waves and the company is also a contract manufacturer for some of the world's largest soft drinks companies.

Financial

In the year to 31 March, revenue rose by 42% to £221.2m with adjusted pre-tax profits more than doubling to £30.7m with strong trading being seen in all divisions. Earnings per share on the same basis rose by 77% to 20.9p and the dividend was raised by 57% to 4.7p per share. The strong cash flow enjoyed by the group meant that at the year end, excluding leases, the group had net cash of £11.6m, up from £3.2m a year earlier.

These were record results and the selection of the group as a master distributor for the UK's leading vaping brands ElfBar and Lost Mary in June 2023 was a major factor in the growth in revenue. The appointment saw the company distribute disposable vapes to new blue-chip customers such as Tesco and further enhanced the cross-selling opportunities available to the group. These products are included in the Branded Products division as the brands are not owned by the group.

In July 2023, the group significantly enhanced both its manufacturing and distribution credentials by commencing operations from its new 167,000 sq ft Ark facility in Manchester, its principal warehouse and distribution centre. This has enabled the group to consolidate and streamline both storage and distribution. In January this year, the group acquired the assets of the protein product manufacturer FoodIQ out of administration for £175,000. The transaction provided the group with access to a highly sophisticated and automated manufacturing facility near London that had cost £1.2m to build less than two years before. The facility was purpose built for the development of sports nutrition products and this will increase the group's manufacturing capacity in its sports nutrition business.

Outlook

The recent AGM statement has confirmed that the strong trading seen last year has continued into the current financial year. The acquisition of Clearly Drinks is expected to be earnings enhancing immediately and expands the group's product offering whilst also offering cross-selling opportunities. The group has a pipeline of potential acquisition opportunities which will stimulate further growth whilst further organic growth can also be expected.

The company is aware of proposed legislative changes regarding vaping which includes a ban on disposable vaping devices in a bid to combat underage vaping, but it expects to be able to deal with these as it has invested in rechargeable pod system vaping devices to replace those being phased out. The company is also very proactive in preventing underage vaping and only deals with retailers who have strict age controls in place whilst it has also adapted the range of flavours and its own-brand packaging to make these less attractive to those underage.

The shares have fallen from a high of 208p at the beginning of August, despite the fact that the positive AGM statement was released on 19 September. The share price has not reacted to that which we find surprising, and we therefore believe that boasting net cash and standing on a prospective p/e ratio of just 7.7x the shares are a BUY – our share price target of 210p represents a p/e ratio of just 10x forecast earnings for this year and would represent a gain of almost 30%.

Share Price: 162p
Market Capitalisation: £190m
2023/24 Share Price Range: 208p/92p
Website: www.investors.supreme.co.uk

Year Ending 31 March	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2023	155.6	15.2	11.8	13.7	3.0	1.9
2024	221.2	30.7	20.9	7.8	4.7	2.9
2025 (est)	242.0	31.0	21.0	7.7	5.0	3.1

Aggressive Growth Portfolio IX

After increasing in value for each of the last three months, it is perhaps hardly surprising that the last month has seen a fall in the value of the Aggressive Growth Portfolio as this has dropped by 3.1%. This means that it has underperformed all the benchmark indices as can be seen from the table below. However, the portfolio is still showing an overall profit for the year to date.

There were no good performances of note during the month from any of the portfolio constituents, but we have lost two of the holdings as these fell through their respective stop-loss limits. Firstly, we have had to sell the holding of SDI Group, disposing of 7,000 shares at 58p. This has raised net proceeds of £4,019 for a loss of £1,036. We have then also had to sell the holding of 2,000 shares in NWF Group at 145p – this has raised net proceeds of £2,871 for a loss of £563. Interestingly, both companies have reported on trading during the month and we believe that both shares remain cheap despite the fact we have had to sell the holdings from the portfolio. Our comments on the trading statements can be seen on the website.

Other companies to make announcements during the month were Ramsdens, Portmeirion Group and Anpario and these are covered in the News Highlights section on the next page.

It has been a busy month for dividends that have been received and over the last four weeks we have received payments from Ramsdens (£95), Epwin Group (£121), Legal & General (£95) and Just Group (£22). Although we sold shares in Just Group last month they had already been marked ex-dividend so we qualify to receive the payment made this month. After buying shares in the two companies tipped this month there is £2,182 left on deposit available for investment.

Performance summary

	15 October 2024	17 September 2024	Gain/(Loss) %
Portfolio Value	£52,422	£54,115	(3.1)
FTSE 100 Share Index	8,249.28	8,309.86	(0.7)
FTSE All Share Index	4,509.11	4,541.00	(0.7)
FTSE AIM All Share Index	733.86	744.74	(1.5)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Billington Holdings	415	5,030	480	5,760	310
2,625	Ramsdens	190	5,037	205	5,381	145
5,750	Epwin Group	86	4,994	103	5,923	70
9,500	Renold*	42	4,029	51.8	4,921	35
1,575	Legal & General	226.8	3,626	223.3	3,517	200
1,750	Journeo	227.5	4,021	271	4,743	185
1,600	Portmeirion Group	212.5	3,434	219	3,504	175
1,500	Anpario	315	4,772	310	4,650	245
2,400	Eurocell	163	3,971	175	4,200	135
2,500	Supreme	162	4,091	162	4,050	125
5,500	Strix Group	65.3	3,627	65.3	3,591	48
£2,182	Cash				2,182	
				TOTAL	£52,422	

Start date: 9 January 2024 with £50,000. Cash includes dividends received of £1,312. *after part disposal.

KETL

65.3p

STRIX GROUP

SECTOR - AIM - ELECTRONICS & ELECTRICAL EQUIPMENT

RECOMMENDATION - BUY

Shares in this AIM-listed kettle safety controls business have slipped back to their lowest level in twelve months and we think that this provides investors with an attractive entry point. The company is rebasing its business to reduce debt and also improve efficiency. This has resulted in the exit from some lower margin businesses and the relocation of some manufacturing from the Isle of Man, the company's base, to China. Although the third quarter of the year has seen some disappointing trading, notably in China, we believe that the fall in the share price takes this into account.

Strix is a global leader in designing and manufacturing kettle safety controls and other water-related products. The kettle safety controls are responsible for disconnecting the power to the heating element when the kettle has boiled or if there is no water in it. These controls require precision engineering and intricate knowledge of material properties in order to repeatedly function correctly. The company also produces other components and devices involving water heating, temperature control, steam management and water filtration. The main manufacturing locations are the Isle of Man and China.

In the six-month period to 30 June, revenue increased to £66.1m (2023: £64.9m) with adjusted pre-tax profit increasing to £7.8m (2023: £6.9m). Diluted earnings per share on the same basis rose to 2.9p (2023: 2.7p) and there was no interim dividend. Net debt at the end of the period had reduced to £68.8m (2023: £93.1m) due to strong cash flow and careful cash management including a slowdown in capital expenditure – the company also raised net proceeds of £8.4m through a placing with investors in June at 80p per share.

The group's restructuring programme made significant progress in the first half with further improvements set to come. Although trading currently is volatile, the company has a leading market position and this puts it in a strong position to make further progress. The shares are a SPECULATIVE BUY.

Share Price: 65.3p
Market Capitalisation: £150m
2023/24 Share Price Range: 112p/51p
Website: www.strix.com

Year Ending 31 December	Turnover (£m)	Adjusted Pre-tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2023	145	21,9	9.0	7.3	0.9	1.4
2024 (est)	151	23.5	8.8	7.4	1.8	2.8
2025 (est)	163	25.0	9.2	7.1	2.5	3.8

News Highlights

Portmeirion Group

219p 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 - 205p

The AIM-listed financial group has released a trading update covering the year to 30 September and this has confirmed that the year will be another record for the group. All parts of the business are doing well, and the group expects to report pre-tax profits of at least £11m for the year (2023: £10.1m) as previously suggested. This should give earnings per share of some 26.5p putting the shares on a p/e ratio of just 7.7x. If the dividend is raised to 11p per share, the shares will also yield 5.4%. With all parts of the business doing well, the trading momentum is set to continue into the current financial year and with a strong balance sheet boasting net cash, we believe that the shares are too cheap. We last recommended the shares at 202p in August since when they have been to 232p - the recent decline in the share price is overdone and a rally back to 230p would represent a gain of over 12%. BUY.

TI Fluid Systems - 181.6p

The group has revealed that it has received yet another proposal from ABC Technologies Inc (its fifth in total!) suggesting an offer for the company at 200p per share in cash. This follows previous potential offers, all of which were turned down by the board of the company. However, the board has decided that if an offer of 200p per share in cash is actually received from ABC Technologies then it would be minded to recommend this to shareholders. ABC has been given until 8 November to decide whether to bid or not. Shares in TI have risen on the news but are still some 10% below the potential offer price - given the persistence of the bidder we believe that the bid is likely to go through and suggest that those readers who bought on our tip at 137p last year hang on. HOLD.

Portmeirion Group - 219p

The manufacturer and retailer of homeware brands such as Spode and Royal Worcester has announced its interim results to 30 June and these have come in pretty much in line with expectations. Revenue for the period was down 17% on the same period last year at £36.6m, whilst an underlying pre-tax loss of £2.0m was recorded compared to break even last year. The fall in revenues was due to poor trading in South Korea as previously indicated and excluding that country sales were up 5% at constant currency. The company has suffered overall from poor consumer sentiment in the UK and USA with high stock levels taking time to sell. The interim dividend has been cut to 1.5p per share from 3.5p per share but this is partly due to rebalancing between the interim and final dividend. The total for 2024 is still expected to be 7.5p per share. Net debt at the end of the period was £13.4m - some £1.6m less than last year. These results were largely as expected and we expect an improvement in the more important second half of the year. We are therefore retaining our forecast of adjusted pre-tax profits of £4.5m for the full year for earnings per share of 25.1p. Tipped at 212.5p in the July issue of the newsletter, we retain our recommendation of BUY.

Anpario - 310p

The animal feed additives group has announced the acquisition of Bio-Vet Inc, a leading producer of animal health and nutrition products based in Wisconsin, USA. Bio-Vet primarily serves the US dairy market, selling directly to farmers, vets and through resellers to reach the smaller farmer. Nearly all the sales of the company are in the US and so the company will benefit from the global reach of Anpario as this will allow it to sell products overseas more easily. The acquisition is an excellent fit for the group and is expected to be earnings enhancing immediately. The cost of the acquisition is $6.3m initially with another $1.0m payable depending on the results of Bio-Vet going forward. In the year to 31 December 2023, Bio-Vet reported revenues of $8.2m and adjusted pre-tax profits of $0.7m. This looks a sensible acquisition for Anpario and we increase our forecast for the year to 31 December 2024 to £4.5m at the pre-tax profit level for earnings per share of 20.5p. Given the scope for growth going forward and the strong cash balances at the group we maintain our recommendation of BUY.

The Character Group - 264p

The AIM-listed toys and games group has issued a trading update covering the year to 31 August and this has confirmed that trading has been in line with expectations, despite external challenges such as increased freight costs and shipping delays, whilst the increase in the cost of living has not helped. Thus, the company expects to meet market expectations of pre-tax profits for the year of around £7m for earnings per share of 26.2p. Initial sales of products for Christmas 2024 have been encouraging, especially with regard to new products, whilst previews of the new ranges for 2025 are also going well. The shares have drifted back slightly from 290p since our last comment in May, but we think that the announcement of the annual results in December should spark some interest in the shares and a move back to this year's high of 340p looks possible for a gain of almost 29%. BUY.

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