cityconfidential

sorting the bulls from the bears

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Building for recovery

Shares in Barratt Redrow (412p) have fallen to the lowest point in over a year as investors worry about the effect of the Autumn Statement on the company. The increase in employers National Insurance contributions is clearly going to have a negative impact on the company, whilst there are now concerns that interest rates will not come down as quickly as previously expected which will obviously impact mortgage rates. This, in turn, is likely to put pressure on the housing market which will adversely affect house builders. However, we believe that the fall in the share price now reflects these factors and that at the current level the shares are attractive.

As readers will no doubt be aware, Barratt Redrow is the new name for the enlarged group following the takeover of Redrow by Barratt Developments in August. This has created a leading housebuilder which will operate with three separate brands outside London – Barratt, David Wilson Homes and Redrow. This will allow the group to offer its customers a broader product range at more price points, with the deployment of the Redrow brand on suitable Barratt Development sites and the Barratt and David Wilson brands onto Redrow sites. The acquisition of Redrow is expected to generate cost synergies of at least £90m, with revenue synergies from 45 incremental sales outlet openings over the next four years.

The enlarged group will have greater scale and, in the current financial year to 29 June 2025, it expects to build between 16,600 and 17,200 homes. Clearly, going forward the increase in the number of sales outlets will help the group in its ambition to complete 22,000 homes a year in the medium term. There is a shortage of housing in the UK which has been well-documented, and the new Government is looking to ease planning controls so that housebuilders can try to address this shortfall.

The company cut its dividend in the 2024 financial year to 16.2p per share although with a strong balance sheet, boasting net cash of £868m at the year end, we would not expect another cut this year. The dividend yield is therefore only 3.9% which is not particularly exciting, but the share price was above 550p under three months ago and even a move back to the 494p level of less than a month ago would represent a gain of 20%. The shares are a BUY FOR RECOVERY.

Let's drink to that!

With Christmas rapidly approaching, now may be a good time to take a look at shares in Virgin Wines (36p) with the company about to enter an important part of the year from a trading point of view. The share price of the company stands just above its low point of the year and well below the 48p level reached during the summer. In fact, in April 2021 the share price was 245p and so it can be seen how far it has fallen in the meantime. Obviously, at that time the company was a major beneficiary of the lockdown as it was a direct to consumer retailer, but even allowing for that the shares seem to have fallen too far.

Virgin Wines is one of the UK's largest direct to consumer wine retailers, supplying a range of wines to its customer base. The company works with a network of over 40 winemakers across the world to source, blend and sell collections of award-winning and exclusive wines. More than 90% of the wine sold is created exclusively for Virgin Wines with the company's in-house team working with its winemaker partners to blend individual wines. This allows the group to create exclusive wines at affordable prices. These can be purchased on a pay as you go basis or through the WineBank or Wine Plan subscription models, with the former supplying most of group revenue through its 126k members.

In the year to 28 June, revenues at the company were a same again £59m, although adjusted pre-tax profits rose to £1.7m (2023: £0.2m). Earnings per share on the same basis increased to 2.5p (2023: 0.3p) and there was no dividend. However, the company has a strong balance sheet with net cash of £10.3m (2023: £5.5m).

The company has stated that the new financial year has started in line with expectations and the group has recently signed an agreement with Ocado, giving it access to the latter's customer base. The group is expected to see an increase in revenues in the current year with pre-tax profits likely to rise to £2.2m for earnings per share of 2.9p. Taking into account the significant amount of cash held on the balance sheet, worth 18p per share, the shares are very lowly rated and we therefore rate them as a BUY.

Kitwave Group – 331.5p

SECTOR - AIM - PERSONAL CARE, DRUG AND GROCERY STORES

The recent trading statement from Kitwave Group, covering the year to 31 October, has confirmed that it has been a successful year, with the company set to meet market expectations. The company has also expanded its operations with three acquisitions during the year, the most recent of these, Creed Catering Supplies, being the largest. This has cost an initial £60m with up to another £10m payable if certain performance targets are met. The consideration is being funded by an increase in the group's borrowings, whilst the company has also raised approximately £31.5m through the issue of shares at 305p. Following the purchase, profit forecasts have been raised going forward and the shares now trade on a relatively modest rating which we believe provides scope for an increase in the share price. A return to this year's high of 408p would represent a gain of over 23%. The shares are a BUY.

Activities

Kitwave was founded in 1987 as a confectionery wholesale business but since then it has grown to become a leading delivered wholesale business, distributing products across the UK to convenience stores, leisure outlets, pubs, restaurants, vending machine operators, foodservice providers and national retailers. The company supplies some 42,000 customers with products including impulse products, fresh, chilled and frozen food, tobacco, alcohol and groceries from a network of over 32 depots around the UK. The group's expansion over the years has been due to a combination of organic growth and acquisition as the company has purchased smaller, predominantly family-owned businesses. The market in which the group operates is highly fragmented and this provides opportunities for the group to make further acquisitions going forward.

The recent acquisition of Creed Catering Supplies has expanded the geographical reach of the group as Creed, which is headquartered in Cheltenham, also has operations in Buckinghamshire and Derbyshire. The purchase will allow Kitwave to create a fully integrated national delivery network, and this should help to bring further organic growth to the group. Creed will also significantly enhance the scale of Kitwave's food service division.

Financial

The most recent financial results cover the six-month period to 30 April. These revealed an 8% increase in revenue to £297m (2023: £275m) although adjusted pre-tax profits declined to £8.5m (2023: £9.9m). Diluted earnings per share on the same basis fell to 8.6p (2023: 10.4p) although the interim dividend was increased to 3.85p (2023: 3.75p). The gross profit margin declined slightly to 21.5% (2023: 21.6%) due to reduced turnover across hospitality customers in the Foodservice division as a result of the bad weather at the start of 2024. Pre-tax profits were also adversely affected by an increase in investment at the group whilst there were also increases in costs, notably labour and delivery-based costs. An increase in finance costs also had a negative impact. Net debt at the end of the period had risen to £83.9m (31 October 2023: £59.4m).

The main reason for the increase in debt was the cost of the acquisitions made in the period. The first of these was WLG, purchased in November 2023, and which trades as Wilds of Oldham. This is a drinks wholesaler based in Oldham, Manchester serving customers within a 50-mile radius of its warehouse and this has turnover of over £10m. The acquisition cost a net £2.5m in cash. In March 2024, the company acquired Total Foodservice Solutions (TFS), a leading food wholesaler in the North of England. This cost a net £17.0m. In the year to 30 April 2023, TFS generated revenue of £25.4m and made pre-tax profits of £2.0m.

In its most recent trading update, which covers the year to 31 October, the company confirmed that it had been a successful year for the group helped by robust trading during the summer, which is the busiest time of year for the group. The group is therefore set to meet market expectations for the year as a whole. The integration of both WLG and TFS is now complete, whilst the new 80,000 sq. ft Foodservice distribution site in the South West has also been completed and this enables three sites to be consolidated into one and further integrates the group's businesses in the region. The new facility will also increase the group's capacity to service a growing customer base there.

Outlook

When the group announced its interim results in July, it confirmed that it was the 15th largest grocery and foodservice wholesaler in the UK in terms of market share. It only serviced around 5% of the total market of around £10.7bn although that percentage will have increased following the acquisition of Creed. Nevertheless, it is clear that with the UK wholesale market being highly fragmented there will be further acquisition opportunities for the group going forward. Since 2011, the group has made 15 acquisitions and the strategy of expanding in this way is set to continue.

The recent Autumn Statement from Rachel Reeves will increase costs at the group although some of the measures, such as the increase in the National Living Wage, had been expected. The increase in employers National Insurance had not been anticipated and this will add around £2m to costs per annum even though the measures do not take place until April next year. The group will aim to recover these costs through efficiencies and other savings, but clearly this will have a negative impact on the group.

The recent acquisitions will see the group increase turnover and profits going forward and the increasing size of the group will bring it to the attention of more institutional investors. This can only be of benefit to the share price. There are clearly going to be more acquisition opportunities for the group, which will improve its standing in the market and yet the shares only stand on a prospective p/e ratio of 10.2x for the financial year that has just started. This looks too low, and we therefore rate the shares as a BUY.

Share Price: 331.5p Market Capitalisation: £267m 2023/24 Share Price Range: 408p/176p Website: www.kitwave.co.uk	Year Ending 31 October	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
	2023	602	27.6	28.9	11.5	11.2	3.4
	2024 (est)	675	28.7	29.5	11.2	11.5	3.5
	2025 (est)	840	35.5	32.5	10.2	12.0	3.6

Aggressive Growth Portfolio IX

It is pleasing to see that after the fall in the value of portfolio last month, which followed three consecutive increases in value, the upward momentum has been restored over the last month with the portfolio rising in value by 2.5%. As can be seen from the table below, the portfolio has significantly outperformed all of the benchmark indices which have all declined in value. The portfolio is now up in value by 7.5%.so far this year and this compares with a rise of 3.8% in both the FTSE 100 and FTSE All Share Indices and a decline of 4.3% in the FTSE AIM All Share Index.

There have been some solid share price performances during the period with both Ramsdens (up 9.8%) and Anpario (up 14.5%) worthy of note. Only three companies have fallen in value during the month, Billington Holdings, Legal & General and Strix Group but we are happy to retain all these holdings for the time being.

Although we had some cash in the bank, we have needed to make a sale to raise some additional liquidity for the portfolio to fund the purchases due this month. We have therefore decided to dispose of the holding of Epwin Group, the building products group. As readers will be aware the portfolio also has a holding of Eurocell, which is also a building products group and so the disposal of the former makes sense. The disposal of 5,750 shares at 108p has raised net proceeds of £6,148 for a gain of £1,154. The shares were originally tipped at 86p and so the gain in share price was therefore over 25%.

It has been a very quiet month for the portfolio in terms of company announcements with no news being issued by any of the portfolio constituents.

No dividends were received by the portfolio during the month and after investing in the two main companies featured this month there is £685 left on deposit available for investment.

Performance summary

	12 November 2024	15 October 2024	Gain/(Loss) %
Portfolio Value	£53,751	£52,422	2.5
FTSE 100 Share Index	8.025.77	8,249.28	(2.7)
FTSE All Share Index	4,393.14	4,509.11	(2.6)
FTSE AIM All Share Index	730.86	733.86	(0.4)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Billington Holdings	415	5,030	450	5,400	310
2,625	Ramsdens	190	5,037	225	5,906	145
9,500	Renold*	42	4,029	54.8	5,206	35
1,575	Legal & General	226.8	3,626	214.7	3,382	200
1,750	Journeo	227.5	4,021	287.5	5,031	185
1,600	Portmeirion Group	212.5	3,434	222.5	3,560	175
1,500	Anpario	315	4,772	355	5,325	245
2,400	Eurocell	163	3,971	179	4,296	135
2,500	Supreme	162	4,091	163	4,075	125
5,500	Strix Group	65.3	3,627	60.6	3.333	48
1,225	Kitwave Group	331.5	4,102	331.5	4,061	285
2,625	Luceco	133	3,543	133	3,491	110
£685	Cash				685	
				TOTAL	£53,751	

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

LUCE

133p

LUCECO

SECTOR - ELECTRONIC & ELECTRICAL EQUIPMENT

RECOMMENDATION - BUY

The recent third quarter trading statement from the group was encouraging, with revenues increasing and gross margins being in line with expectations. The group is therefore on track to meet market expectations for the year, whilst the recent acquisition of CMD has taken the group into new markets with growth opportunities. This does not seem to be reflected in the current share price which is close to its lowest level for over six months despite the progress that has been made.

Luceco is a leading manufacturer and supplier of wiring accessories to the residential market in the UK, with its products including switches and sockets, junction boxes, LED lighting and portable power products. These are sold through DIY and other retailers, distributors and wholesalers supplying professional electricians as well as online. The recent acquisition of CMD for £30m has expanded the group's operations to include the workplace, with CMD supplying wiring accessories for commercial premises where it holds a leading position in the UK.

The group's interim results for the six months to 30 June saw revenue rise by 8% to £109.6m, with adjusted pre-tax profits increasing by 19% to £11.2m. Earnings per share on the same basis were 14% higher at 5.7p and the interim dividend was raised 6% to 1.7p per share. These were solid results given the challenging trading conditions and they have benefited from resilient demand from residential customers. The third-quarter trading update has confirmed further steady progress which bodes well for the year as a whole.

Shares in the company have drifted lower since the latest statement and now stand well below the high for the year of 195p. The acquisition of CMD is a natural fit for the group and is expected to be earnings enhancing immediately and there is a healthy acquisition pipeline. Despite the fact that revenues and profits are expected to increase going forward the shares stand on a modest rating and we believe they are a BUY.

Share Price: 133p
Market Capitalisation: £214m
2023/24 Share Price Range: 195p/107p
Website: www.lucecoplc.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	209	21.2	11.1	12.0	4.8	3.6
2024 (est)	235	22.6	11.4	11.7	4.9	3.7
2025 (est)	260	25.0	12.6	10.6	5.0	3.8

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.

Ultimate Products – 119.5p

The leading homeware brands group, which sells products under names such as Salter, Beldray, Kleeneze and Russell Hobbs, has announced its results for the year to 31 July. These have shown that revenues declined to £155m (2023: £166m) during the year. The decline was due to weak consumer demand and lower orders from supermarkets who had over ordered previously although one pleasing aspect was the increase in overseas sales of 7% to £54m. Adjusted pre-tax profits fell to £14.4m (2023: £16.8m) with earnings per share coming in at 12.3p (2023: 15.4p). The dividend was maintained at 7.38p per share. Although the year proved challenging, the company has continued with its rebranding programme with the Salter rebrand being completed and the initiation of the rebranding of Beldray. The management team has also been strengthened significantly whilst the opening of a new European showroom in Paris should also boost sales. Current trading in the UK remains challenging, but international sales are encouraging, and we believe that as trading conditions improve the company can return to the 2023 profit figure of £16.8m in the current year for earnings per share of 14.8p. The shares are a BUY.

SDI Group – 60.5p

The technology products company SDI Group has announced the acquisition of InspecVision, a provider of precision measurement machinery for industrial applications, for £6.1m. The acquisition will take the group into the high value metrology market and the company will join SDI's Industrial and Scientific Products division. The purchase will be funded by cash and is expected to be earnings enhancing immediately. InspecVision generated revenues of £3.2m in 2023 and produced adjusted EBITDA of £0.84m. It has a blue-chip customer base with international sales and a strong presence in the USA. The acquisition will provide cross-selling opportunities for the group and is another step in the group's long-standing acquisition strategy. With the group on target to make adjusted pre-tax profits of £8.3m for the year to 30 April for earnings per share of 6p the shares look cheap. BUY.

Speedy Hire – 30.7p

Ahead of the announcement of the interim results on 21 November, the UK's leading tool and equipment hire service company has provided a trading update for the six months to 30 September. This has revealed that despite the challenging trading conditions, revenues at the group have held up well, falling only marginally compared with the same period last year. The group's joint venture in Kazakhstan has been disappointing and performed below expectations due to delays in some major projects, but this is expected to be a timing issue with the revenues coming in later than expected. The group is continuing with its Velocity transformation plan whilst the pipeline of new opportunities continues to grow with further contract wins expected in the second half of the financial year. We therefore maintain our forecasts for the current financial year of pre-tax profits of £25.0m for earnings per share of 4.3p. The shares remain a BUY.

Audioboom – 202.5p

The global podcast group has issued a very positive trading update covering the quarter to 30 September and this has revealed record Q3 revenue of $18.8m, up 34% on the $14.0m reported in the same period last year. This has taken revenues for the year to date to $52.9m, a 15% increase on the $45.8m reported last year. Q3 adjusted EBITDA was a record $1.0m, the fourth successive quarter of positive EBITDA and the target for the full year has been raised to $2.5m from previous expectations of $1.3m. Group cash at the end of the period was $3.3m slightly down on the $3.5m recorded at the end of June. These are very encouraging figures although the shares have failed to really respond and remain stuck in the range of 200p - 250p. We think that this has created a useful buying opportunity and Michael Tobin, the chairman, certainly thinks so as he has purchased 25,620 shares since the announcement. BUY.

Sylvania Platinum – 51.5p

The platinum group metals producer has announced its results for the three months to 30 September, being the first quarter of the current financial year, and these have come in as expected. The company increased its revenue to $21.9m for the period compared with $20.6m in the previous three-month period. Group EBITDA for the period was $3.3m compared to $2.8m in the previous quarter. The cash balance at the end of September was $94.7m compared with $97.8m at the end of June. An increase in metals production was partly offset by a slight decline in metal prices although full year production guidance was maintained. Further progress can therefore be expected at the group over the coming months and although the shares have risen slightly from the recent low of 43.5p, they are well below the 2024 high of 75p. We reiterate our recommendation of BUY.

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