cityconfidential

sorting the bulls from the bears

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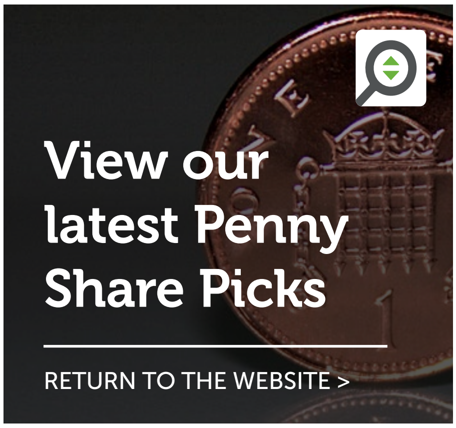


Pop some Sainsbury shares in your basket!

Shares in the leading supermarket group J Sainsbury (236.4p) have fallen to their lowest level in over two years recently and we believe that this has created a useful buying opportunity for investors. The shares fell back by almost 8% on 14 March on the back of disappointing results from Asda, which reported a reduction in sales in its most recent results. However, we believe that Sainsbury's is a very different proposition to Asda, which was bought by private equity in 2021 in a deal which left the group with large debts.

Sainsbury's is the second largest supermarket group in the UK after Tesco with a share of the grocery market of 15.7%, according to the latest figures from marketing data specialists Kantar. The company has increased its market share slightly over the last year as other supermarket groups such as Asda and Morrisons have struggled. The latter are both now privately owned, but each carries a large level of debt which has made life tough for them.

Sainsbury's continues to develop its Next Level Sainsbury's plan revealed in February 2024, and this is looking to achieve cost savings of £1bn over the three years to March 2027, whilst increasing market share as well. The company is looking to build on its Nectar loyalty card business whilst also adapting the Argos store estate to become more efficient by opening more Argos stores within Sainsbury's supermarkets for example. Last summer the company agreed to sell its Sainsbury's Bank core business to NatWest, and this is expected to complete next month – this is expected to return £250m to the group and this will be distributed to shareholders.

The group reports its results for the year to 1 March 2025 on 17 April and these are expected to reveal adjusted pre-tax profits of around £745m, up from £701m the previous year. Earnings per share on the same basis should increase to 22.2p from 22.1p last time with the dividend for the year upped to 13.5p per share from 13.1p. As can be seen, these figures put the shares on a p/e ratio of just 10.6x and a yield of 5.7%. With further growth expected in the current financial year, the shares are a BUY.

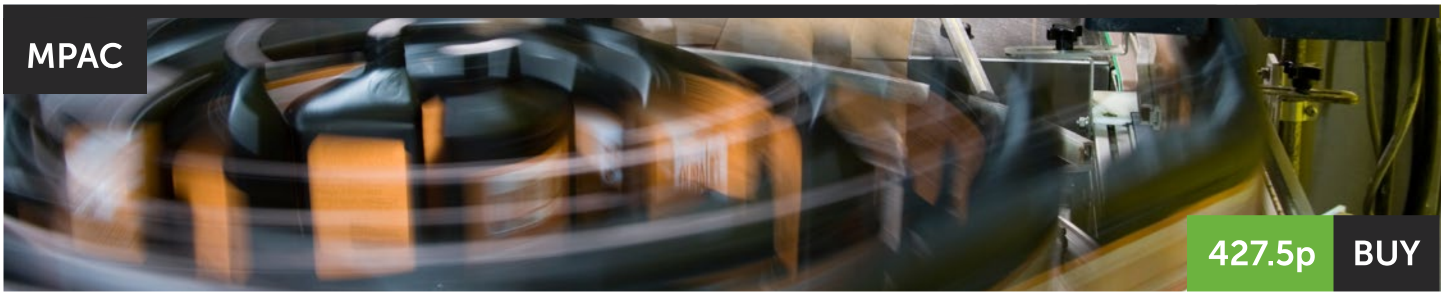
Fancy getting 19p for only 14.75p?

Regular readers will know that we have followed Logistics Development Group (14.75p), the investment company, for some time although the share price performance of the company has been largely disappointing! Having said that, we last tipped shares in the company back in December 2023 at 11.25p and within weeks the share price had risen to 13.9p for a gain of over 23%! Unfortunately, from there the share price headed south for the next few months, eventually bottoming out at 9.7p last May. It then rallied and traded between 10.35p and 12.75p until December.

On 24 December, the company announced that one of its investments had been realised, with an original investment of £10m being turned into £13.1m. Following the receipt of these funds the company's cash balance stood at £44m and it was decided that some £21m would be returned to shareholders through a tender offer at 19p per share. This announcement prompted a rally in the share price to 14.75p.

Earlier this week, the company issued a quarterly valuation update of its portfolio with this being worth 22.3p per share at 31 December. As can be seen, with the share price being 14.75p, the shares still stand at a significant discount of 34% to the underlying net asset value. The company has therefore confirmed its intention to return cash to shareholders and following consultation with a number of the latter, it has decided that a tender offer to return £21m at a price of 19p per share is the most appropriate solution. Further details of the tender offer will be announced in the next few weeks.

The tender offer will involve returning around 27% of the group's equity to shareholders at a significant premium to the current price. Once it has been completed, the net asset value of the company will have been further enhanced, whilst the takeover of Alliance Pharma, another of the group's investments, will add further to the net asset value when this completes in the next few weeks. Given the large discount to the net asset value per share we believe that the shares are a BUY.



Mpac Group – 427.5p

SECTOR - AIM - INDUSTRIAL ENGINEERING

It seems somewhat bizarre that shares in the packaging machinery group reacted positively to the trading update in January, rising by around 70p to 590p, as they have now slumped to their lowest level in almost six months. The company confirmed in its trading statement that it had performed in line with expectations in 2024 with a substantially improved performance in the second half of the year. The company has also started 2025 with a large and diversified order book helped by the acquisitions made last year and this will underpin the significant revenue growth expected in the current year. As a result of this, pre-tax profits are expected to show a substantial increase over 2024 with earnings per share also growing rapidly as well. The shares will stand on a modest prospective p/e ratio of just 9.7x if these forecasts can be achieved. With further growth on the cards going forward the shares are a BUY.

Activities

Mpac Group (formerly known as Molins) is a global leader in engineering and automation providing assembly and packaging solutions. The company designs, builds and supports the machines that assemble and package the products that millions of people around the world depend on. Blue-chip customers use the group's machinery to pack products ranging from ice cream, tea bags, contact lenses and canned drinks to name just a few. The company operates in the growing sectors of healthcare, clean energy, food and beverages. Although the group has its headquarters in Tadcaster, North Yorkshire it also has operations or offices in the USA, Canada, Singapore and the Netherlands.

Through its three product lines, Lambert, Langen and Switchback, the group provides full line Original Equipment and Services for automated high-speed packaging, from assembly of products through to case packing and palletising. The group's service offering ensures a stable and recurring revenue stream after the sale of the Original Equipment.

2024 was transformational for the group as it made three acquisitions during the year. Although the first of these was very small, in September the company acquired Boston Conveyor and Automation Inc. (BCA), a US-based supplier of robotic automation and conveyor solutions to the food, life sciences and general industrial sectors. Consideration for the purchase was $17m and this was satisfied with $11m in cash and the balance in new Mpac shares. The products and systems of BCA are complementary to those offered by Mpac, thus making it an excellent fit.

In October, the company then announced the acquisition of CSi Palletising, a leading provider of design, manufacturing and installation services for end-of-line automation and palletising solutions. The business is based in the Netherlands with manufacturing facilities in Romania and it serves customers including Mondelez International, Unilever, Nestle and Pepsico. The acquisition is highly complementary to the group's existing operations and there are considerable synergistic opportunities through cross-selling to each other's customers whilst each company will benefit from the increased geographic exposure obtained. This purchase cost €56m with initial cash consideration of €41.5m. To help fund this, the company raised gross proceeds of £30m through a placing and open offer of new shares at 400p.

Financial

The most recent results of the group are the interim results for the six months to 30 June 2024. These revealed a 14% increase in revenue to £60.0m (2023: £52.8m) although underlying pre-tax profit more than doubled to £4.0m (2023: £1.9m). Earnings per share on the same basis increased by 134% to 15.2p (2023: 6.5p) and, as usual, there is no dividend. These were clearly good results with significant growth in both revenues and profits and helped by an increase in operating margin to 7.5% (2023: 4.2%).

Clearly, the acquisitions made in the second half of the year have transformed the business, although the impact of these will not be felt until this year and 2026. The company issued a trading update in January and this confirmed that trading in the second half of 2024 was ahead of the first half of the year as expected. As a result, the company expects to report adjusted pre-tax profits of £10.5m for the year as a whole (2023: £7.1m). The second half of the year benefited from improving margins and operational efficiencies, whilst the acquisitions that were made have performed as expected and are being integrated according to plan. Following the completion of the acquisitions the group ended 2024 with net debt of £37m. However, this is expected to fall significantly during 2025.

Outlook

Mpac started 2025 with an order book of £111m (2024: £72.5m) and this will help to underpin the growth in revenue expected this year. Following the acquisitions made last year, the group is more diversified and there are considerable potential synergies to be exploited with the purchase of BCA expanding the group's coverage in North America, whilst being part of the enlarged group will also provide BCA with exposure to markets in Europe, the Middle East and Africa where it has previously not had any involvement. Similarly, the acquisition of CSi Palletising will increase the group's capability and offering as well as the opportunity to cross sell to each other's customers.

The current year will benefit from the acquisitions made last year although the company was expanding anyway and these purchases have just accelerated the growth trajectory of the group. The company operates in growth markets with clean energy, which involves lithium battery production, thought to have significant potential.

The recent fall in the share price appears unwarranted and has resulted in the shares standing on a very modest rating given the growth potential. We believe that the shares are excellent value and that they justify a price of 616p, being 14x the earnings per share for 2025. A move to that level would represent a gain of some 44%. BUY.

Share Price: 427.5p
Market Capitalisation: £129m
2023/25 Share Price Range: 590p/190p
Website: www.mpac-group.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	114	7.1	26.2	16.3	-	-
2024 (est)	125	10.5	34.0	12.6	-	-
2025 (est)	215	17.3	44.0	9.7	-	-

Aggressive Growth Portfolio IX

It is disappointing to say the least to have to report that the Aggressive Growth Portfolio has just put in the worst monthly performance since the pandemic in March 2020 – five years ago!. Over the last month, the portfolio has fallen in value by 6.3%, thus significantly underperforming all of the benchmark indices as can be seen from the table below. What is slightly bizarre, however, is that none of the holdings in the portfolio has fallen to its stop-loss limit, even though we raised some of these last month.

The fall in the value of the portfolio has been spread broadly across the portfolio with all of the constituents apart from Vertu Motors falling in price. As most of the holdings in the portfolio are quoted on AIM, it is perhaps not so surprising that the shares have fallen so much as the FTSE AIM All-Share Index is at close to a ten year low. This is not so much the fault of the companies concerned, but a sign that whilst UK shares remain out of fashion in general, those on AIM and other UK smaller companies are even more so! In such circumstances we would advise readers not to panic and remain calm as we believe these shares will recover strongly in the coming weeks.

It has been a very quiet month for the portfolio, with only Ramsdens Holdings making an announcement and this is covered in News Highlights. There have not been any sales of shares in the portfolio either, as we had kept enough liquidity back last month to fund the purchases this month.

No dividends were received during the month and following the investment into the two main features this month there is just £532 on deposit pending investment.

Performance summary

	18 March 2025	18 February 2025	Gain/(Loss) %
Portfolio Value	£49,377	£52,684	(6.3)
FTSE 100 Share Index	8,705.23	8,768.01	(0.7)
FTSE All Share Index	4,699.07	4,751.49	(1.1)
FTSE AIM All Share Index	694.28	724.52	(4.2)

	Security	Buying Price (p)	Total Cost (£)	Current Price (p)	Value (£)	Stop-Loss Limit (p)
1,200	Billington Holdings	415	5,030	480	5,760	425
2,625	Ramsdens Holdings	190	5,037	215	5,644	195
9,500	Renold*	42	4,029	38.4	3,648	35
1,750	Journeo	227.5	4,021	245.5	4,296	225
2,500	Supreme	162	4,091	152	3,800	125
2,625	Luceco	133	3,543	146.4	3,843	110
1,750	Volex	261.5	4,622	275.5	4,821	210
7,000	Vertu Motors	53.3	3,768	53.6	3,752	45
2,250	Tandem Group	185	4,204	172.5	3,881	140
5,000	Flowtech Fluidpower	66.9	3,373	59.4	2,970	50
800	Mpac Group	427.5	3,454	427.5	3,420	350
2,500	Kier Group	120.4	3,055	120.4	3,010	100
£532	Cash				532	
				TOTAL	£49,377	

Start date: 9 January 2024 with £50,000. Cash includes dividends received of £1,603. *after part disposal

KIE

120.4p

KIER GROUP

SECTOR - CONSTRUCTION & MATERIALS

RECOMMENDATION - BUY

The recently announced interim results from the infrastructure services, construction and property group have shown that the group has made significant operational and financial progress in the six months to 31 December. Revenues and adjusted pre-tax profits increased, whilst the group also recorded a significant improvement in its financial situation, ending the period with net cash of £57.9m compared with £17.0m a year earlier. Despite the positive results and confident statement about the future, the shares fell back although it is pleasing to note that four directors purchased a total of over 62,000 shares after the announcement. Readers should follow their lead and BUY.

Kier Group is a leading UK infrastructure services, construction and property group, operating from a network of offices around the UK and Northern Ireland. The company is a strategic supplier to the UK Government, maintaining roads, building prisons and hospitals whilst it also works for regulated bodies such as water companies.

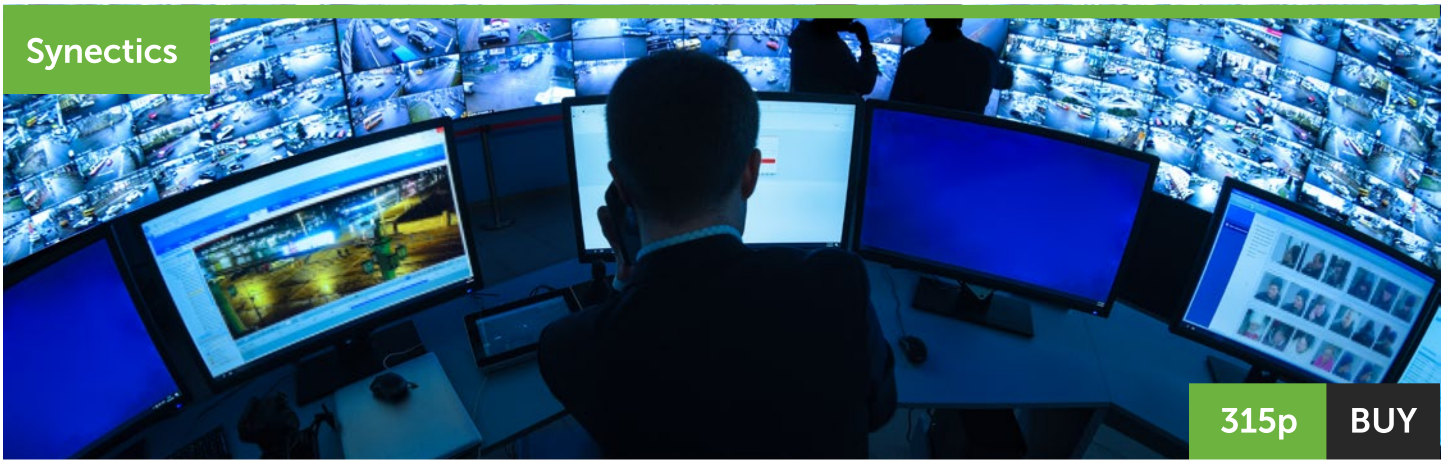
In the six months to 31 December, revenue rose 5% to £1.98bn, with adjusted pre-tax profits increasing by 3% to £50.6m. Earnings per share on the same basis were unchanged at 8.7p although the interim dividend was raised by 20% to 2.0p per share. The company ended the period with net cash as detailed above, whilst the order book was increased by 2% to £11bn providing visibility of future revenue. The company also announced a £20m share buyback in January to return excess cash to shareholders.

We are somewhat surprised that the shares have fallen back on the latest statement – after all, the share price was 155p only four weeks ago. The directors have made their feelings known by buying shares in the company and with a strong balance sheet and solid prospects for the second half of the financial year the shares look undervalued. We believe a run back to 155p which would put the shares on a prospective p/e ratio of 7.0x is very possible and we therefore rate the shares as a BUY.

Share Price: 120.4p
Market Capitalisation: £544m
2023/25 Share Price Range: 163p/61p
Website: www.kier.co.uk

Year Ending 30 June	Turnover (£bn)	Adjusted Pre-tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2023	3.4	110	19.3	6.2	-	-
2024	4.0	118	20.6	5.8	5.15	4.3
2025 (est)	4.2	130	22.0	5.5	7.00	5.8

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.

Ramsdens Holdings – 215p

The AIM listed financial services group issued a trading update to coincide with its AGM, revealing that it had traded well in the period 1 October 2024 to 28 February 2025 with the precious metals business benefiting from the strong gold price. The group has a strong balance sheet with significant net cash of £7.4m at the last year end of 30 September and we are happy to maintain our full year forecast of adjusted pre-tax profits of £12.1m and earnings per share of 27.2p for the year to 30 September 2025. We maintain our recommendation of BUY with a share price target of 335p.

Ocado – 258.7p

The company has announced its annual results to 1 December, revealing a 14.1% increase in revenue to £3.2bn, with adjusted group EBITDA rising threefold to £153.3m. The group reported an adjusted loss before tax of £360m on continuing activities, a similar level to 2023. Net debt at the end of the year was £713m excluding lease liabilities, an increase of almost £200m on the previous year although the group spent £399m on capital expenditure. Some investors have clearly lost patience with the company and have bailed out, but we think that the company is close to a turning point with the company forecasting that it will become cash positive in 2026. Capital expenditure will continue to fall as the company believes that it has done most of the heavy lifting here, whilst the continued rollout of the group's technology continues to generate increases in revenues. The UK retail business which includes the partnerships with Marks & Spencer and Morrisons also continues to grow. Although the group remains loss-making, long-term investors should look to acquire stock at this level, whilst short term traders should buy with a share price target of 330p. BUY.

Kitwave Group – 274p

In the year to 31 October. revenues were up just over 10% at £664m (2023: £602m), with adjusted pre-tax profits rising slightly to £27.9m (2023: £27.6m). Earnings per share were marginally down at 30.0p (2023: 30.3p) and the dividend for the year was increased slightly to 11.3p (2023: 11.2p). The company successfully completed three acquisitions during the year, two of which have been successfully integrated with Creed Catering Supplies, acquired last September, being integrated as expected. Net debt at the end of the year excluding leases was £63.7m (2023: £25.7m) with the increase primarily due to spending £73.3m on acquisitions although the company received net proceeds of £30.1m through an equity raise at 305p per share. The new financial year has started well and although the changes to the National Living Wage and National Insurance will add £2m to costs, the company believes it should be able to absorb this. Pre-tax profit forecasts for the current year are around the £34.5m level for earnings per share of 31.5p. The group is well-managed and the shares stand on a modest p/e ratio of just 8.7x Two directors have bought a total of 35,000 shares at 258p and readers should follow their lead and BUY.

Synectics – 315p

In the year to 30 November, revenues increased by 13.6% to £55.8m (2023: £49.1m) with adjusted pre-tax profits increasing by 56% to £4.7m (2023: £3.0m). Earnings per share on the same basis were 52% higher at 21.6p (2023: 14.2p) and the dividend for the year was raised by 50% to 4.5p per share (2023: 3.0p). Strong cash flow led to record levels of net cash at the year end with balances of £9.6m compared with £4.6m the year before. These are clearly excellent results with all sectors of the business doing well, especially the gaming market where the company has won new business in casino resorts in the Far East. The group has started the new financial year with a strong order book of £38.5m (2023: £29.2m) whilst a number of new contracts have been won this year as well. The company continues to enhance its product offering although at this stage we are maintaining our forecasts for the current year of adjusted pre-tax profits of £5.2m for earnings per share of 25.0p. Given the growth prospects and the large cash balance, we feel a prospective p/e ratio of 12.6x is too low and maintain our recommendation of BUY.

Capita – 14.16p

The group has announced results for the year to 31 December 2024 showing that revenues fell by 8% to £2.37bn, although adjusted pre-tax profit increased by 22% to £50.0m (2023: £40.9m). These figures reflect the disposal of non-core activities as well as a focus on higher margin activities with operating margin increasing to 4.0% from 3.5% in 2023. Adjusted earnings per share were 2.11p with the 2023 figure being negative due to an exceptional tax charge. Net debt at the end of the year, excluding leases, had fallen to £66.5m from £182.1m as the group benefits from the sale of non-core businesses. Trading conditions remain challenging although the group continues to pick up more work and the company expects revenues to be similar in the current year to 2024. Increasing efficiencies should result in a better profit performance though, whilst debt should also fall further in the current year. Three directors have purchased a total of over 1.84m shares in the company following the results and we believe that the shares have further to go. BUY.

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