cityconfidential
sorting the bulls from the bears

Issue 248
4th March 2020

Market Indices at 3 March 2020

FTSE 100	6,718.20
FTSE 250	19,682.65
FTSE All Share	3,749.09
FTSE AIM All Share	882.96
Dow Jones Ind Av	25,917.41
S & P 500	3,003.37
Nikkei 225	21,100.06

Interest Rates		Currency Rates	
UK:	0.75%	£/$:	1.28
ECB:	0.0%	£/€:	1.14
US:	1.25%	€/$:	1.12
		£/A$:	1.94

Commodity Prices

Oil (Brent Crude):	$51.86bbl
Gold:	$1,644oz
Copper:	$5,668/tonne

10-year government bond yields

US	0.94%
UK	0.35%
Germany	(0.63)%
Japan	(0.14)%

Go Westminster

Specialist security and services group Westminster Group (10.5p) has a volatile share price and in the recent turmoil which has hit the broad market this has certainly been the case. Investing in the company requires an appetite for risk but those willing to take the plunge now could benefit from significant reward.

The company's main activity is the design, supply and ongoing support of advanced technology security solutions. This covers a wide range of surveillance, detection, tracking and interception technologies and the provision of long-term managed services contracts. Examples are the management and running of complete security services and solutions in airports, ports and other such facilities as well as the provision of manpower, consultancy and training services. The company's largest customers tend to be governments and government agencies, non-governmental organisations and blue-chip commercial organisations.

A trading update at the end of January confirmed that 2019 was a record year and subject to audit there should be a strong increase in revenues to around £10.9m versus £6.7m in 2018. This is the fifth year of double-digit percentage revenue growth and demonstrates ongoing progress.

On 24 February the company announced a reduction in its debt position and reduction in financing costs following the redemption of £561,250 worth of its Convertible Secured Loan Notes. The company is undertaking a staged redemption programme of Convertible Secured Loan Notes, which currently carry a 15% coupon. The company intends to continue with its staged redemption programme, which is planned to be completed in advance of the maturity date of the Loan Notes, which is 30 June 2020.

The company is continuing to deliver improved performance and although the shares should be considered high risk, there is clearly scope for upside. We rate the shares as a SPECULATIVE BUY.

Powering ahead

Shares in energy storage and clean fuel company ITM Power (159.5p) have been in demand in recent months. The formation of the Joint Venture with Linde and the strategic investment that accompanied it were transformative. The deal allows the company to concentrate on developing and manufacturing electrolysis equipment and it is now able to offer a full turnkey solution at industrial scale.

ITM Power designs and manufactures products which generate hydrogen gas, based on Proton Exchange Membrane technology. This technology only uses renewable electricity and tap water to generate hydrogen gas on-site. The product offering can be scaled to at least 100MW in size. The company is a globally recognised expert in hydrogen technologies with the overarching principle to take excess energy from the power network, convert it into hydrogen and use it in one of three broad market areas, namely Mobility, Power-to-X and Industry. There are multiple application areas, all of which are acknowledged to be growing rapidly and requiring systems of ever larger capacities. The desire for improved air quality worldwide, growth of renewable power generators in the energy mix and need to decarbonise industrial processes are all significant factors which should drive future growth.

The most recent set of figures available are interim results for the six months ended 31 October 2019. Historic financials are irrelevant given the stage of the company's development but perhaps most importantly, cash and short-term deposits at the period end were £56.9m (£5.2m as at 30 April 2019 and £15.6m as at 31 October 2018). This reflects a significant equity raise which was completed in October 2019. In the second half of the year cash burn will increase as the work on Bessemer Park progresses.

The shares have eased back since the middle of February, albeit having soared in the preceding few weeks, and the high level could be retested in the near term. There is a high level of risk involved given that the shares have multiplied over the past 12 months. However, prospects appear to be exciting and there is clearly a lot of interest in the company. We believe that the shares are now a TRADING BUY.

Leaders & Laggards

19 February 2020 - 3 March 2020

The best and worst performing of our recent tips:

1. Manx Financial	9.5p + 11.8%
2. Anpario	350p + 2.0%
3. Wynnstay Group	265p + 0.4%
1. Saga	28.5p - 33.4%
2. Zytronic	137.5p - 23.6%
3. G4S	156.9p - 22.1%

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www.cityconfidential.co.uk

Clinigen Group (CLIN) - 717.5p

SECTOR – AIM – BIOTECHNOLOGY
RECOMMENDATION – BUY

Clinigen Group recently released interim results covering the six months to 31 December 2019. These were solid figures with some encouraging commentary. Analysts are also upbeat about the company's prospects but the release of the results was followed by one of the worst weeks that global stock markets have ever had, with indices posting double-digit percentage falls. Under more normal conditions the shares would almost certainly be higher than where they currently stand. We believe that they now look attractive on valuation grounds.

The company is a global pharmaceutical and services business focused on providing ethical access to medicines. It aims to deliver the right medicine to the right patient at the right time through three areas of global medicine supply, which are clinical trial, unlicensed and licensed medicines. It has sites in North America, Europe, Africa and the Asia Pacific region with over 1,100 employees in 14 countries. There are supply and distribution hubs and operational centres of excellence in key long-term growth regions. The company works with 22 of the top 25 pharmaceutical companies and currently interacts with over 15,000 registered users across over 100 countries.

The company provides healthcare professionals and their patients with greater access to medicines around the world, increasing the value of pharmaceutical products by extending and expanding their lifecycle. A key way of achieving this is by operating as a pharmaceutical and pharma services group with a combination of Clinical Services, Unlicensed Medicines and Commercial Medicines businesses. Each of these is focused on enabling ethical access to critically important hospital medicines. Each business works synergistically to facilitate access to medicines at key points of a product's lifecycle.

Within services, the aim has been to create an international, integrated group both via organic growth and through a buy and build strategy. The company has positioned itself as the most logical partner for both pharmaceutical and biotech companies and healthcare professionals. Within pharmaceutical products, a portfolio of specialist hospital medicines is being developed, revitalising products to drive extended use of niche medicines. Following transformational corporate and product acquisitions made in the last financial year, the focus more recently has been on integrating the acquisitions further. Integration of all acquisitions is now either complete or well underway and the benefits are already being felt.

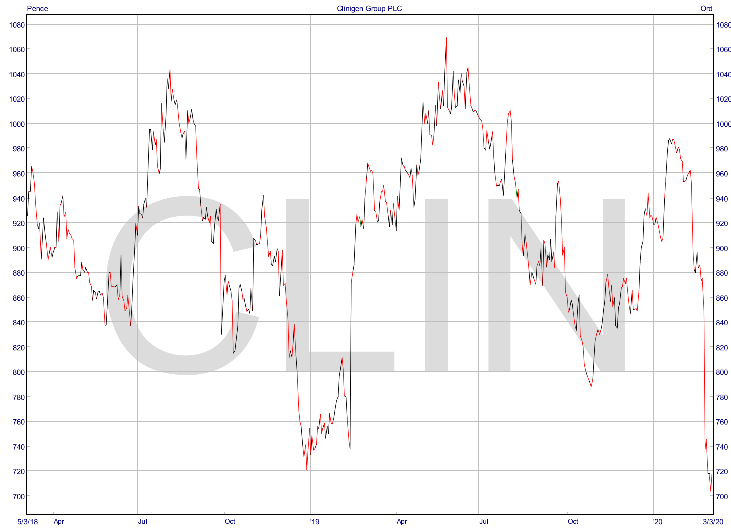
Recent interim results showed that in the six months to 31 December 2019 there was strong growth in revenues, which increased by 17% to £243.7m (2018: £208.9m). Net revenues, adjusting for the pass through revenue in Managed Access business in Unlicensed Medicines, grew by 24%. Adjusted profit before tax was £51.8m (2018: £36.7m) and reported profit before tax was £24.8m (2018: £12.9m). Adjusted basic earnings per share increased by 34% to 30.8p (2018: 23.0p). The increase reflects higher adjusted profit from operations, offset by dilution and higher finance costs following the acquisitions in the last financial year as well as the related placing and debt financing. Reported basic earnings per share came in at 14.1p (2018: 7.7p).

A sustainable and progressive dividend policy is in place and it is expected that interim and final dividend payments will be split approximately one-third to two-thirds respectively. The interim dividend was lifted by 10% to 2.15p per share (2018: 1.95p). This will be paid on 17 April and the ex-dividend date is 19 March. Although the yield is modest at the moment we believe that there is potential for significant capital growth.

Operating cash flow of £10.1m (2018 restated: £34.6m) reflected an increase in working capital in the final months of the period, mainly due to the purchase and supply of Proleukin in the US. Working capital was also impacted by the timing of payments from across the Group, particularly in the Africa and Asia Pacific region. There were also delays in invoicing and cash collection due to the launch of an ERP system. These are temporary issues which should reverse in the second half, although the working capital investment in Proleukin is expected to remain at high levels given the timing of shipments to customers towards the financial year end.

Capital expenditure (excluding product acquisitions) was £9.4m (2018: £9.5m), which includes £3.4m related to warehouse, IT and other infrastructure investments, £3.6m related to the ERP system, and £2.4m on new product development. Capital expenditure for the second half of the current financial year is expected to be below the first half. The first of two US$30m deferred consideration payments for the rights to Proleukin US was paid during the period, with the second payment due in the second half of the financial year.

Initial consideration of £115.5m (US$151.9m) in cash was paid for CSM in October 2018, with additional contingent consideration which had a fair value at 30 June 2019 of £55.0m (US$69.8m). The contingent consideration is payable in the second half of the current financial year based on the adjusted EBITDA generated by CSM in the 12 months to 31 December 2019. The other main cash outflows were tax paid of £15.3m (2018: £6.1m), interest paid of £5.3m (2018: £3.4m) and dividends paid of £6.3m (2018: £5.1m).



As a result of the deferred consideration paid for Proleukin, the increase in working capital and an IFRS 16 adjustment, net debt increased by £69.9m to £322.3m in the period. Net debt is expected to increase further by the end of the current financial year as operational cash flow is more than offset by deferred consideration payments for CSM and Proleukin, as well as capital expenditure.

Shares in Clinigen Group appear to be very good value given the track record which has been built in recent years. The company only joined AIM in 2012 and made a quick impression at the time, meaning that it was named 'Best Newcomer' at the London Stock Exchange AIM Awards the following year. The shares are trading on a multiple of little more than 10x prospective earnings for the current year and with growth forecast, this undervalues a quality business. Now looks an opportune time to BUY.

Share Price: 717.5p
Market Capitalisation: £953m
2019/20 Share Price Range: 1069p/703.5p
Website: www.clinigengroup.com

Year Ending 30 June	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	457	88.3	54.4	13.2	6.70	0.9
2020 (est)	538	114.6	71.0	10.1	8.06	1.1
2021 (est)	572	125.8	76.9	9.3	8.56	1.2

For more details on the announcements below please see our website.

COMPANY

600 Group - 11p	A trading update has been released with regards to the current financial year with results for the full year now set to be significantly below previous expectations. In December it was reported that the company had been experiencing macro-economic and political uncertainties across its end markets, particularly in the Far East and automotive markets, with order intake for the fourth quarter expected to be significantly below originally predicted levels. Trading conditions have since become more challenging, with the General Motors strike in US plants at the end of last year and the suspension of manufacture by Boeing of its 737 MAX in January this year both unhelpful. Order intake in both Machine Tools and Industrial Laser Systems therefore remains volatile, including two significant projects that have been pushed into the next financial year. Across UK operations, there continues to be good progress with orders up over 100% on the prior year. Contracts have been exchanged for the sale of the Gamet Colchester site for US$0.5m. We continue to believe that long term investors will ultimately be rewarded. BUY.
G4S - 156.9p	The company has entered into an agreement to sell the majority of its conventional cash handling businesses to The Brink's Company for an enterprise value of £727m. G4S will receive net cash proceeds of approximately £670m and assign around £60m of net liabilities to Brink's. This appears to be a sensible deal. BUY.
Keller Group - 775p	Results for the year ended 31 December 2019 have been released. These were in line with expectations following a strong second half, as anticipated. Revenue was up 3% to £2,300.5m with growth in North America and EMEA. Underlying operating profit was £103.8m on an IFRS 16 basis and £101.8m on an IAS 17 basis. Underlying earnings per share were 81.3p on an IFRS 16 basis and 83.5p on an IAS 17 basis (2018: 79.1p on an IAS 17 basis). Net debt on a bank covenant IAS 17 basis was reduced by 26% to £213.1m. A final dividend of 27.4p per share (including a non-recurring supplementary dividend of 2.3p per share) took the 2019 full year dividend to 40.0p per share, an increase of 11% on the prior year. The current year is said to have started well and the outlook remains cautiously optimistic. Another year of continued progress is anticipated, backed up by an order book in excess of £1bn. We keep our BUY rating.
Manx Financial - 9.5p	In 2018 Conister Bank Limited, a wholly owned subsidiary of Manx Financial Group, acquired 20% of the issued capital of Beer Swaps Limited, trading as Ninkasi Brewkit Rentals. This Ledbury-based business provides equipment finance and rental products to UK based craft and micro-breweries. The agreement included an option for Conister Bank to acquire the remaining shares by April 2021. It is now increasing its ordinary shareholding to 75% for a cash consideration of approximately £0.5m. Conister will also simplify the capital structure of Beer Swaps Limited by repaying all director loans, being £0.1m, and all issued preference shares, being £0.2m, as part of the deal. For the year ended 31 March 2019 Beer Swaps Limited reported turnover of £0.4m and a profit before tax of £0.1m. Net assets were £0.2m. BUY.
Norcros - 231p	The bathroom and kitchen products supplier has issued a trading update for the 10 month period to 2 February. This has confirmed that the company has continued to gain market share despite the challenging trading conditions. The UK business has performed well, seeing growth in revenues although the business in South Africa has not done as well – the company is therefore looking at ways to cut costs in that business. Although coronavirus has not had any real impact so far, as the company had sufficient stock to satisfy customer demand, the slower than anticipated return to full production at its Chinese based suppliers may cause issues in the important final two months of the group's financial year. These supply chain issues are likely to impact the beginning of next year as well. Until there is clarity on the issue we reduce our recommendation to HOLD.
Synectics - 147.5p	Final results for the year ended 30 November 2019 revealed revenue of £68.5m versus £71.2m a year earlier. Underlying profit fell from £2.9m to £2.5m and profit before tax fell from £2.1m to £1.6m. Underlying diluted earnings per share were 13.9p (2018: 12.6p) and net cash at the period end was £3.6m, down from £8.1m a year earlier. The final dividend was maintained at 3.5p. The year end order book was £32.7m, up from £21.0m a year earlier. The company has also announced that it has reached agreement on an employment related legal claim in the US. As a result of this Synectics made a provision of £908k in respect of the claim, including legal costs, as a non-underlying item in its audited final results for the year ended 30 November 2019. We retain our HOLD holding.
Town Centre Securities - 210p	The company has announced interim results for the six months ended 31 December 2019. The IFRS 16 lease accounting standard has been applied for the first time and going forward the company will also report adjusted EPRA earnings, which removes the effect of IFRS 16. Adjusted EPRA earnings before tax increased to £4.4m (2018: £3.7m). Adjusted EPRA earnings per share were 8.2p (2018: 6.9p). Net assets per share were down 3.2% in the period to 343p (30 June 2019: 354p). Net borrowings have continued to decrease and at the period end stood at £174.0m excluding finance leases/IFRS 16 (30 June 2019: £177.5m) giving a loan to value ratio of 48.5% (30 June 2019: 48.8%) excluding finance leases/IFRS 16. The interim dividend was held at 3.25p per share. We keep our BUY rating.
Vertu Motors - 31.2p	The automotive retailer has provided a trading update with regards to the five-month period to 31 January 2020 ahead of announcing preliminary results for the year ended 29 February 2020. Trading performance is set to be in line with its overall expectations. Like-for-like revenue growth was 5.4%, achieved at increased margins. The company has noted that scale will become an increasingly important success factor as the sector evolves. The current pipeline of potential acquisition opportunities is strong and any deals are evaluated very carefully. Final results for the year ended 29 February 2020 are due to be released on 6 May. We continue to rate the shares as a BUY.
Xpediator - 25p	The provider of freight management services across the UK and Central and Eastern Europe has announced that its subsidiary, Import Services, has signed a 20 year lease with Associated British Ports for a new 200,000 sq ft distribution centre at Southampton's Container Port. The opening of this new facility will take the company's UK warehousing capability to approximately 700,000 sq ft. Associated British Ports has begun development of the new distribution centre and it is expected to complete in the first quarter of 2021. The shares look very attractive and rank as a BUY.

Aggressive Growth Portfolio VII

The sharp correction seen in the stockmarket over the last fortnight has taken a heavy toll on the portfolio. As can be seen from the table, the portfolio has dropped in value by 9.6% and this compares to a fall of 9.0% in each of the benchmark indices.

Apart from seeing a significant decline in value, the portfolio has lost a number of holdings due to share prices falling to below their stop-loss limits. We have therefore made the following disposals:- 7,500 Vertu Motors at 36p to raise net proceeds of £2,673 and realise a loss of £156; 500 Keller at 775p to raise £3,836 and make a profit of £776; 1,500 G4S at 170p to raise £2,525 and realise a loss of £629; 800 D S Smith at 330p to raise £2,614 for a loss of £497; 6,000 Saga at 40p to raise £2,376 for a loss of £724; 1,800 Premier Miton at 130p to raise £2,317 for a loss of £710 and 8,500 Xpediator at 26p to raise £2,188 for a loss of £688.

There have been announcements during the period from Vertu Motors, Town Centre Securities, G4S and Xpediator and these are covered on page 3 as usual.

No dividends have been received during the period and after purchasing shares in the two companies featured in this issue there is £12,241 left on deposit pending investment. This is clearly a much larger sum than usual, but given the market uncertainty this may be no bad thing!

PERFORMANCE SUMMARY			
	3 March 2020	18 February 2020	Gain/(Loss) %
Portfolio Value	£56,047	£62,030	(9.6)
FTSE 100 Share Index	6,718.20	7,382.01	(9.0)
FTSE All Share Index	3,749.09	4,118.84	(9.0)

	SECURITY	BUYING PRICE (p)	TOTAL COST (£)	CURRENT PRICE (p)	VALUE (£)	STOP-LOSS LIMIT (p)
1,075	Equiniti	223.4	2,437	203	2,182	180
1,250	Morrison (Wm) Supermarkets	199.25	2,528	176.1	2,201	170
2,000	Marshall Motor Holdings	140	2,828	154.5	3,090	120
1,250	Hargreaves Services	259	3,269	260	3,250	215
1,750	Town Centre Securities	186	3,304	210	3,675	190
6,000	Duke Royalty	44.1	2,672	42.5	2,550	37
1,000	Anpario	330	3,333	350	3,500	275
5,000	Speedy Hire	64.2	3,258	75.8	3,790	55
12,500	Avacta*	17.5	2,210	23.5	2,938	14
8,750	Lamprell Group	34.6	3,072	29.5	2,581	28
1,250	Everyman Media Group	209	2,638	215	2,688	165
3,850	UP Global Sourcing	77.4	3,025	65.5	2,522	60
1,875	Carr's Group	152	2,892	136	2,550	120
450	Clinigen	717.5	3,261	717.5	3,229	575
1,200	Character Group	255	3,091	255	3,060	185
£12,241	Cash	-	-		12,241	
				TOTAL	**£56,047**	

Start date: 2 January 2018 with £50,000. Cash includes dividends received of £3,801 *after taking some profit.

Character Group (CCT) – 255p

SECTOR - AIM - LEISURE GOODS
RECOMMENDATION - BUY

Character Group has faced some tough challenges over the last couple of years and this has seen the share price slump. In the immediate future there is even more uncertainty given the possible impact of the coronavirus on both consumer demand and the company's supply chain. However, the shares have potentially reached a low point and there is potential for strong recovery.

The company is involved in the design, development and international distribution of toys, games and giftware. It mainly distributes products sourced from overseas third parties. In-house developed lines based on licensed-in brands including Peppa Pig, Teletubbies, Scooby-Doo, Doctor Who and Stretch feature in the current portfolio.

Results for the year to 31 August 2019 showed revenue of £120.4m versus £106.2m in the prior year. The reported profit before tax was £11.1m (2018: £11.6m) and underlying earnings before interest, tax, depreciation and amortisation were £13.7m (2018: £13.6m). Underlying basic earnings per share before significant items were 43.27p (2018: 45.09p). Underlying diluted earnings per share were 42.96p (2018: 44.38p). Net assets as at 31 August 2019 were £34.1m (2018: £31.8m) and net cash was £6.5m compared to £15.6m a year earlier. A final dividend of 13.0p (2018: 12.0p) took the total for the year to 26.0p (2018: 23.0p).

A trading update was released to coincide with the company's AGM on 17 January. The 2019 Christmas trading period was said to be 'extremely challenging with the total toy market in the UK contracting for the second successive year'. Sales of core products were down against the same period in 2018 but there was still good sell through in the UK. Although the first half results will show decline, the company is confident of strong performance in the second half. It now expects profit before tax for the year ending 31 August 2020 to be around £10m, which is lower than consensus expectations at the time.

Interim results are due out in early May and in the meantime the share price is likely to be driven by factors outside the company's control. However, looking at the longer term the balance sheet is very healthy and this should mean that prospects are better than the current valuation suggests. We believe that now is a good time to take a contrarian view and BUY.

Share Price: 255p
Market Capitalisation: £54.5m
2019/20 Share Price Range: 580p/252p
Website: www.thecharacter.com

Year Ending 31 August	Turnover (£m)	Adjusted Pre-Tax Profit (£m)	Adjusted Earnings Per Share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2019	120	11.1	43.0	5.9	26.0	10.2
2020 (est)	122	10.0	36.6	7.0	26.0	10.2
2021 (est)	129	11.0	38.1	6.7	26.6	10.4

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