# Bargain Shares

## *Simon Thompson* reveals his top value picks for 2022

The idea behind our annual Bargain Shares Portfolio is simple. It's to invest in companies where the true worth of the assets is not reflected in the share price, usually for some temporary reason, but where we can reasonably expect that it will be in due course.

Our portfolios are based on the investment ideas of Benjamin Graham (see 'Rules of Engagement', right) and they have certainly withstood the test of time, beating the FTSE All-Share index in 19 out of the 23 years in which we have run them. During that time, they've generated an average return of 21.9 per cent in the first 12-month holding period compared with an average increase of 4.5 per cent for the FTSE All-Share index.

My 2021 motley crew of Bargain Shares proved no exception, generating a 12-monthly total return of 24.9 per cent on an offer-to-bid basis and including dividends (see table on page 43). By comparison, the FTSE All-Share Total Return index, the index against which we benchmark our annual performance, produced a return of 18.7 per cent. It's worth pointing out that the FTSE Aim All-Share index lost 7.8 per cent of its value over the 12-month period, so the portfolio's outperformance was even more striking given that the hidden gems we uncover in the stock market are found among the under-researched small and micro-cap segment. A full review of 2021's bargain shares will follow in next week's magazine.

Targeting smaller companies has reaped handsome rewards over the years, thereby justifying our long-term bias. But it works both ways, as companies that disappoint can be punished more heavily given the less liquid nature of these shares. The flip-side is that when we get it right, our track record shows substantial long-term outperformance should be expected.

There is no doubt that this investment strategy has stood the test of time, with every single one of the past six annual portfolios I selected outperforming the FTSE All-Share handsomely.

Interestingly, merger and acquisition (M&A) activity has been a regular feature of all my portfolios, as predators, attracted by the asset backing on offer, run their slide rule over the numbers. It's understandable, as in some cases valuations are so depressed that we are getting all the fixed assets in the price for free, thus offering the substantial "margin of safety" Benjamin Graham was aiming for.

So, once again, I have run the rule over around 1,500 listed companies on Aim ▶

### BARGAIN SHARES PORTFOLIO: 23-YEAR TRACK RECORD

| Year | Bargain Shares Portfolio 1-year performance (%) | FTSE All-Share index 1-year performance (%) |
|---|---|---|
| 1999 | 59.0 | 17.3 |
| 2000 | 28.1 | -4.5 |
| 2001 | 2.5 | -17.2 |
| 2002 | -29.0 | -31.0 |
| 2003 | 146.0 | 29.0 |
| 2004 | 17.1 | 11.0 |
| 2005 | 50.0 | 16.1 |
| 2006 | 16.9 | 11.3 |
| 2007 | -0.9 | -6.0 |
| 2008 | -60.1 | -30.9 |
| 2009 | 53.4 | 25.6 |
| 2010 | 46.1 | 18.6 |
| 2011 | -18.4 | -2.7 |
| 2012 | 31.9 | 8.9 |
| 2013 | 36.4 | 10.4 |
| 2014 | -16.0 | 6.8 |
| 2015 | -0.8 | -7.4 |
| 2016 | 11.0 | 19.4 |
| 2017 | 30.4 | 10.7 |
| 2018 | 12.5 | -4.9 |
| 2019 | 33.1 | 13.4 |
| 2020 | 30.2 | -8.6 |
| 2021 | 24.9 | 18.7 |
| Average one-year return | 21.9 | 4.5 |

Source: Investors' Chronicle

### SIMON THOMPSON'S BARGAIN SHARES PORTFOLIOS PERFORMANCE (2016-21)

| | Portfolio total return to date | FTSE All-Share total return to date | FTSE Aim All-Share total return to date |
|---|---|---|---|
| 2016 | 106.7% | 63.4% | 70.9% |
| 2017 | 121.5% | 30.5% | 30.6% |
| 2018 | 82.1% | 19.4% | 7.8% |
| 2019 | 53.4% | 23.6% | 24.7% |
| 2020 | 53.1% | 8.6% | 16.1% |
| 2021 | 24.9% | 18.7% | -7.8% |

Source: London Stock Exchange, FTSE International
Bargain Shares Portfolio total return calculated on offer-to-bid basis with dividends un-invested

### RULES OF ENGAGEMENT

The bargain portfolio is based on the writings of Benjamin Graham, a US investor and writer, who favoured looking for companies that were "out of favour because of unsatisfactory developments of a temporary nature".

How do we know whether the "unsatisfactory developments" are indeed "temporary"? Graham's approach was to focus on the balance sheet, and specifically the net current assets – stocks, debtors and cash less any creditors. He believed that a bargain share is one where net current assets less all prior obligations exceed the market value of the company by at least 50 per cent. Graham's theory was that a strong balance sheet will usually see a company through any short-term difficulties; he called it his "margin for safety".

Finding companies that match these strict criteria has become more and more difficult over the years as the link between market capitalisation and asset value has become more tenuous. In practice, when we ran our search we found only a handful of the 1,500 listed UK companies had a bargain ratio of one or above, and this included relatively illiquid micro-cap companies with market values below £10mn that are very difficult to trade. So, to widen the net, the cut-off point has been lowered to 0.3, and to avoid liquidity issues we only considered companies with a market value above £15mn.

Finally, it must be noted that market makers could easily raise their offer quotes for smaller companies by 10 per cent-plus on publication day. However, prices and spreads have demonstrated a habit of drifting back over subsequent weeks, so please be disciplined in your share buying. These investments are for the long term, as the long-term strong outperformance of the 2016 to 2021 portfolios highlight. It is also important to buy a decent number of our recommendations to diversify risk.

## TARGETING SMALLER COMPANIES HAS REAPED HANDSOME REWARDS OVER THE YEARS

► and the main market of the London Stock Exchange to come up with a portfolio of companies where the asset backing should be strong enough to overcome any short-term trading difficulties and, in time, reward our loyal following of long-term value investors.

## TAVISTOCK INVESTMENTS (TAVI)

**Aim:** Share price: 4p
**Bid-offer spread:** 3.8-4.2p
**Market value:** £23.2mn
**Website:** tavistockinvestments.com

- Shares trading on 53 per cent discount to last reported net asset value (NAV)
- £8.1mn cash on balance sheet and £20mn deferred cash payout from Titan Asset Management exceeds £23.2mn market capitalisation
- Advisory business growing organically and set to deliver over £3mn of Ebitda in 2021-22 financial year

Aim-traded **Tavistock Investments (TAVI)**, a financial services group that was established in 2013 and which now has more than 175 advisers across the UK helping more than 40,000 clients look after £4bn of investments, pulled off an eye-catching disposal last summer. It is one that investors have yet to cotton on to. In fact, my sum-of-the-parts valuation is almost four times the current share price.

The sale of the group's multi-asset manager, Tavistock Wealth, to Titan Wealth – a fast-growing discretionary fund management business that is aiming to grow assets under management (AUM) to £20bn to £30bn within the next three to five years – not only realised £40mn for Tavistock, but the sale agreement included a valuable 10-year earn-out, too. Tavistock received £20mn of cash on completion in August 2021 with the balance of £20mn payable in equal instalments over the next three years, linked to the maintenance of Titan Wealth's revenues.

In the financial year to 31 March 2020, Tavistock Wealth reported pre-tax profit of £2.3mn from gross revenue of £5.6mn, so the £40mn consideration is a reasonable price for a profitable asset manager with £1.15bn of AUM and one that subsequently increased reported earnings, before interest, depreciation and amortisation (Ebitda) from £3mn to £3.9mn on revenue of £5.85mn in the 12 months to 31 March 2021.

In addition, Tavistock entered a 10-year earn-out with Titan whereby it will receive half of future net income on any increased funds under management within Tavistock Wealth's Acumen Ucits funds (Ucits, or undertakings for collective investment in transferable securities, is a set of voluntary rules that many ETFs follow). A new company within Tavistock Investments, Tavistock Asset Management, is continuing to market the group's centralised investment proposition, which includes both the Acumen Ucits funds and the company's model portfolio service.

Importantly, Titan is led by an experienced management team backed by Ares Management, Maven Capital Partners and Hambleden Capital. Joint chief executive James Kaberry is founder of Pantheon Financial Management, which grew to be one of the UK's largest financial advisory firms; and executive chairman and joint chief executive Andrew Fearon is the founder of one of the biggest UK consolidators of independent financial advisers (IFAs), Independent Wealth Planners. Fearon has been active in UK wealth management, too.

Bearing in mind the £20mn deferred cash element of the transaction, Tavistock's directors noted in the group's interim accounts at the tail end of last year that they "are confident Tavistock Wealth's gross annual revenue will exceed the £6mn performance benchmark" referred to in the sale and purchase agreement with Titan. In the same accounts, Tavistock booked a £35.8mn net profit on the disposal, noting that the transaction qualified for a Substantial Shareholding Exemption, thus avoiding a £7mn tax charge.

The impact on Tavistock's balance sheet has been dramatic, enabling the group to repay £3.5mn of debt to its bankers and clear borrowings, repurchase 4.7 per cent of the share capital at 4.7p a share in an earnings and NAV-accretive share buyback, hike the interim dividend five-fold to 0.05p a share, and boost NAV per share from 2.59p in March 2021 to 8.6p a share in September 2021.

**OUR PORTFOLIOS HAVE WITHSTOOD THE TEST OF TIME, BEATING THE FTSE ALL-SHARE INDEX IN 19 OUT OF THE 23 YEARS IN WHICH WE HAVE RUN THEM**

It also means that Tavistock's £23.2mn market capitalisation is less than half book value of £49.8mn, even though the group held £17.2mn of cash and £22.5mn of receivable balances including the £20mn deferred consideration from Titan. That's a harsh valuation considering Tavistock's advisory business is continuing to grow organically and has funds to deploy on an accelerated acquisition programme to mitigate the loss of earnings from Tavistock Wealth.

### Fast-growing advisory business delivering a fully integrated offering

In the financial year to 31 March 2021, Tavistock improved the profitability of its advisory business no end, boosting Ebitda from £375,000 to £2.28mn on modestly higher revenue of £23.7mn, buoyed by a strong turnaround of its three divisions:

- Tavistock Private Client – an award-winning practice that provides independent financial advice, specialist wealth management, tax saving and financial planning to higher-net-worth clients.
- Tavistock Partnership – a group of professional IFAs whose sole objective is to enhance the financial planning offering to their clients while growing the value of their business.
- Tavistock Partners – a business providing compliance, regulatory, administration and accounting services to IFAs.

The positive trend has continued into the current financial year, as the advisory business increased its revenue by more than a third from £10.7mn to £14.7mn in the six months to 30 September 2021 and delivered 56 per cent higher Ebitda of £1.5mn. This is the directors' preferred measure of profitability of financial performance as Ebitda strips out the distorting impact of one-off gains and losses from acquisitions as well as other non-cash items.

It's also worth noting that the directors are guiding shareholders to expect annual revenue from the advisory business alone to exceed the total group revenue for the 2020-21 financial year, even though Tavistock Wealth accounted for £5.9mn of group revenue of £28.7mn in that 12-month trading period.

The implication is that Tavistock's advisory business is now generating around £3mn in Ebitda (before central overheads) on over £29mn of revenue, thus easily

### TAVISTOCK INVESTMENTS SUM-OF-THE-PARTS VALUATION

| Portfolio company | Estimated carrying value 31 January 2022 | Value per share | Basis of valuation |
|---|---|---|---|
| Cash | £8.1mn | 1.4p | 2021 interim accounts adjusted for Morgan Financial acquisition and initial payment on LEBC stake acquisition. |
| LEBC stake (initial consideration) | £6.0mn | 1.0p | RNS announcement 10 January 2022. |
| Titan Asset Management deferred consideration | £20.0mn | 3.5p | Sale and purchase agreement 14 June 2021. |
| Tavistock Advisory | £61.7mn | 10.7p | Multiple of two times revenue for 2021/22 financial year and 19 times Ebitda multiple, and Morgan Financial acquisition at cost. |
| Total NAV | £95.8mn | 16.5p | |

Source: Tavistock Investments' 2021 interim accounts, London Stock Exchange filings.

underpinning a valuation of two times revenue for the unit in a sector where mergers and acquisitions are more often pitched at three times revenue.

## Astutely recycling cash

Importantly, the directors are recycling the cash from the disposal, having announced two acquisitions last month, the first of which was the £10mn purchase of a 21 per cent minority stake in LEBC Holdings, an IFA group that has three subsidiaries: LEBC Group, Aspira Corporate Solutions and Hummingbird. The LEBC shares are being acquired from the widow of LEBC's former chief executive and founder, Jack McVitie, who unexpectedly passed away last year. Tavistock will pay £6m cash on completion and the balance 12 months later.

LEBC was established in 2000 as a provider of financial planning and consultancy services to private and corporate clients. It employs 46 financial planners, has more than 75,000 clients and an estimated £5bn of assets under advice, of which over £500mn is invested in LEBC's model portfolio service. LEBC's draft accounts for the financial year ended 30 September 2021 reveal that it generated Ebitda of £3.3mn on gross revenue of £15mn and had net assets of £5.6mn.

LEBC's majority shareholder is **BP Marsh & Partners (AIM: BPM)**, the specialist investor in early-stage financial services businesses. It's a company I have followed for the past decade, during which time BP Marsh's share price has quadrupled on the back of strong investment performance. The price paid by LEBC for its stake equates to 14 times Ebitda, a reasonable multiple and one that offers decent potential for investment upside as Tavistock works with both BP Marsh and LEBC's management to accelerate LEBC's commercial development and operational efficiency.

In addition, Tavistock has just announced the £3.7mn cash acquisition of Morgan Financial Group, an IFA group with offices in Bath and Cheltenham. Established in 1992, and boasting more than 1,500 clients with £500m of assets under advice, Morgan reported Ebitda of £0.3mn on revenue of £2.3mn in the 2021 financial year. The consideration equates to 4.6 times net assets, a point that further underlines the chronic undervaluation of Tavistock's own businesses.

## Sum-of-the parts valuation

Clearly, Tavistock's profitable advisory business is being incredibly lowly rated, both by the stock market and in the group's conservative balance sheet.

To put this into some perspective, only £15.7mn (2.7p a share) of Tavistock's NAV of £49.8m (8.6p a share) is being attributed to the advisory business, after stripping out £8.1mn cash on the group's balance sheet (net of the initial £6mn payment for the LEBC stake and £3.1mn initial cash payment for the Morgan Financial acquisition), £20mn deferred cash due from Titan over the next three years, and the value of the newly acquired stake in LEBC. The advisory business could easily be worth four times that amount in a trade sale.

In fact, I estimate that Tavistock has a sum-of-the-parts valuation of 16.5p, or four times the current share price. That valuation is also double the last reported NAV of 8.6p a share, which highlights the advisory unit's hidden value in the group balance sheet. It's a glaring valuation anomaly given that the advisory business is highly profitable and delivering strong organic growth.

Moreover, with Tavistock's chief executive Brian Raven and chairman Oliver Cooke controlling 17 per cent of the shares, the directors have a vested interest in narrowing the share price discount to both NAV and my reasonable sum-of-the-parts valuation. The fact that the interim dividend was hiked fivefold to 0.05p a share points towards a decent and progressive income stream for investors, too.

In a consolidating sector, there is even a chance that Tavistock will attract attention given the deep share price discount to the underlying value of its assets. Titan's directors are certainly aware of this possibility, having inserted a clause in the sale agreement with Tavistock that enables Titan to acquire the remainder of the Tavistock business by matching any such bid received by it during the three years following completion of the sale of Tavistock Wealth. Buy.

# VECTOR CAPITAL (VCAP)

**Aim: Share price:** 44.5p
**Bid-offer spread:** 43-46p
**Market value:** £20.1mn
**Website:** vectorcapital.co.uk

- Trading ahead of 2021 profit estimates
- Double-digit earnings growth forecast in 2022
- Enlarged wholesale borrowing facilities
- 2022 forward price/earnings (PE) ratio of 9 and prospective dividend yield of 6 per cent

**Vector Capital (VCAP)**, a commercial lender that offers secured property loans to predominantly small property developers who buy properties to refurbish and then re-sell, has flown below the radar since its initial public offering (IPO) on London's junior market in December 2020.

In fact, even though Vector delivered 27 per cent growth in its average loan book to £46.3mn in 2021 and will beat analysts' earnings expectations, the shares are still trading at last summer's 47p placing price when investors backed a £1.5mn equity raise. The funds are supporting ongoing strong demand for its short-term loans, the company having ▶

► previously raised £2.6mn net proceeds at 38p a share when it first listed its shares on Aim in December 2020.

A buoyant UK property market, Vector's competitive strengths through well-established broker relationships, and the speed at which it can approve loans are supportive of loan demand staying high. Specifically, Vector's clients borrow for general working capital purposes, bridging finance, land development and acquisitions on residential, commercial and buy-to-let properties.

### Types of loan

Vector typically provides 12-month term loans with fixed interest rates of between 11 and 14 per cent. It may then offer extensions on the same or revised terms for the following 12 months. Borrowers can repay before their loan matures, usually without penalty. Loan exits are usually by refinancing with high-street or challenger banks once customers can meet their requirements, or from the sale of the property on which the loan is secured. Vector does not generally lend on a junior, subordinated, or unsecured basis, or accept any collateral located outside the UK as security.

Customers utilise their loan proceeds for a variety of purposes including: refinancing of existing property loans; property acquisitions; business finance loans – these are secured against property, but the funds are used for a separate business purpose; change-of-use development – the conversion of a building either from office to residential, or house to flats; property new build; and land acquisition – for these loans, security is taken against the land purchased at a lower loan-to-value ratio than for other types of loans.

### Loan demand and prudent underwriting

Such is the current demand that Vector has recently increased its wholesale borrowing facilities with Shawbrook Bank and Aldermore from £30mn to £35mn. Management is also trialling a co-funding model to allow third-party lenders to participate directly alongside the group in the provision of loans.

It should be noted that Vector incurs a fixed 6.5 per cent interest charge on its wholesale banking lines and lends out to customers at the previously mentioned rates of 11 to 14 per cent, implying an incremental net interest margin of 4.5 to 7.5 percentage points on new lending. In addition, Vector earns an arrangement fee of 1-2 per cent, which more than covers loan administration costs and introduction fees paid to credit brokers, some of whom have worked with the group for more than 20 years.

Importantly, credit quality remains robust and bad debts are minuscule. Vector only incurred £43,000 of impairments in the four years prior to listing its shares in December 2020. An average loan size of £586,000 across a book of 79 secured loans diversifies customer concentration risk while a modest loan-to-value ratio of 52 per cent provides suitable cover in the event of a default, and a cushion against the impact of a market downturn on the gross value of its security. The requirement for director personal guarantees when lending to special purpose vehicles further mitigates default risk.

**CASE STUDY: CROWN HOUSE, GREAT YARMOUTH**

Vector provided a £3.2mn exit loan secured on Crown House, Great Yarmouth. Originally an office block, the property has been developed into 30 one- and two-bedroom flats with a total value of £4.3mn.

The exit loan was used to redeem a group of early investors who financed the development of Crown House and provide the developer with the flexibility and time to sell the flats. The finance was provided within three weeks and will see the development through the sales process.

**VECTOR TYPICALLY PROVIDES 12-MONTH TERM LOANS WITH FIXED INTEREST RATES OF BETWEEN 11 AND 14 PER CENT**

### A scalable model

Vector's board doesn't expect any significant increase in variable costs as the loan book scales up over the next two to three years. Also, the facilities provided by Shawbrook and Aldermore are at fixed rates, and there is no non-utilisation fee.

This means that Vector's cost-to-income ratio should decline as revenue growth translates into improved operating margins as economies of scale are reaped from a bespoke IT platform and online portal. Importantly, it is readily scalable to facilitate growth in the loan book to £100mn (from £46.3mn at the end of 2021) without a parallel increase in operating expenses, staff, or IT infrastructure upgrades. Interestingly, other wholesale lenders are interested in providing much larger credit facilities at reduced interest rates once the business has attained the requisite scale, thus offering additional scope to boost operating profit margins.

It's worth considering that Vector doesn't compete with the regulated mortgage sector, but with providers of unregulated short-term loans. This segment of the market includes specialist short-term lenders as well as larger regulated banks offering unregulated loans. Vector's market does not appear to be primarily price-driven. Commissions paid to brokers are at industry standard rates, so do not represent a source of differentiation for introducers. All other fees are transparent.

Admittedly, interest rates are a more important factor, but developer clients are experienced enough in their chosen sector to structure projects such that the development gain can absorb relatively high short-term interest rates on that part of the financing. A steady rate of repeat business with existing borrowers highlights this point.

### Earnings risk to the upside

A prudent approach to underwriting, a relatively fixed cost base and the absence of bad debts explain why a high proportion of interest income and fees earned are converted into operating profit.

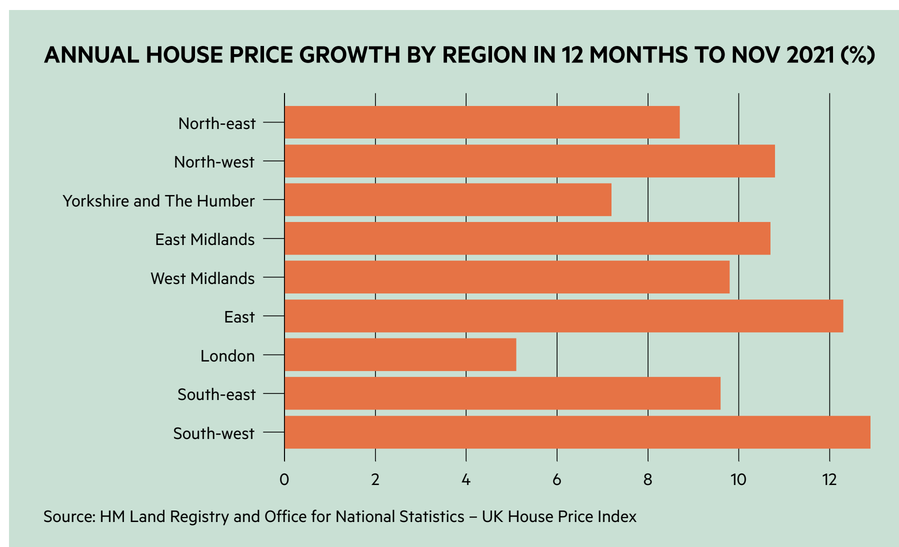
Vector increased operating profit by 22 per cent to £3.37mn on 20 per cent higher revenue of £4.33mn in 2020, and analysts at house broker Allenby had been anticipating an increase in operating profit to £3.73mn on revenue of £5mn in 2021. However, this was based on a year-end loan book of £40mn, rather than the reported figure of £46.3mn. The group will exceed those estimates when it releases annual results in April, having guided investors to expect revenue to rise by at least

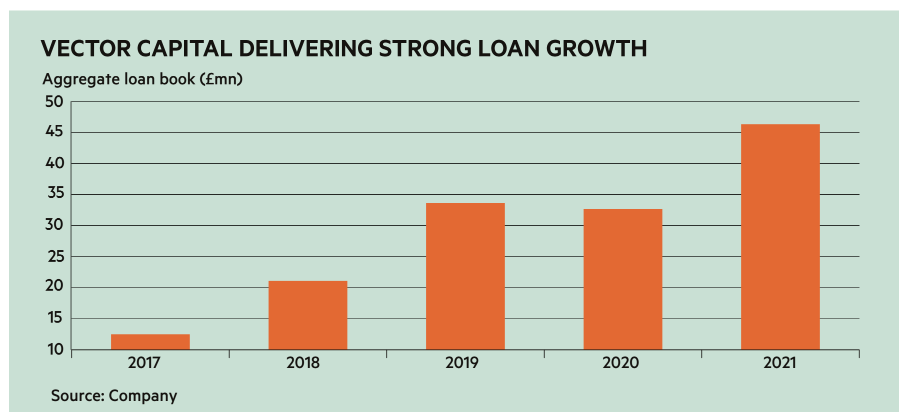
24 per cent to £5.3mn. It also means that the dilutive impact of the placings on earnings per share (EPS) will be reduced, too.

Moreover, with the loan book at the start of the 2022 financial year already achieving Allenby's previous year-end closing figure, then there are decent prospects that Vector will exceed Allenby's revenue estimate of £5.69mn, which underpins its operating profit estimate of £4.37mn and pre-tax profit forecast of £2.9mn. The broking house's 2022 EPS estimate of 5.21p, which factors in 9.5 per cent annual growth, looks beatable, too.

However, even without factoring likely upgrades to the 2022 estimates, the shares are still only trading on a forward PE ratio of 8.5. It's worth noting that the founders control 75 per cent of the shares, so have a vested interest in progressing the 2020 annual dividend of 2.4p a share, the board having declared a maiden interim dividend of 0.95p a share in 2021. Allenby is pencilling in a 2.8p-a-share payout for 2022, implying a prospective dividend yield of 6.3 per cent.

For good measure, the shares trade on a 13 per cent discount to book value. That effectively gives a further 'margin of safety', as the £3mn difference between the company's market capitalisation and NAV equates to 6.5 per cent of the loan book. For a business that incurs minuscule impairments, and is growing profits organically, this is an excellent entry point. Buy.




### VECTOR CAPITAL FINANCIAL RESULTS AND ESTIMATES

| Year end 31 Dec | 2018 | 2019 | 2020 | 2021E | 2022E |
|---|---|---|---|---|---|
| Revenue | £1.84mn | £3.59mn | £4.33mn | £5.00mn | £5.69mn |
| Operating profit | £1.42mn | £2.76mn | £3.37mn | £3.73mn | £4.37mn |
| Operating margin | 77.2% | 76.9% | 77.8% | 74.6% | 76.8% |
| Pre-tax profit | £1.24mn | £1.97mn | £2.35mn | £2.56mn | £2.91mn |
| Year-end loan book | £21.1mn | £33.6mn | £36.4mn | £40.0mn | £46.0mn |
| Earnings per share | na | na | 5.58p | 4.76p | 5.21p |
| Dividend per share | na | na | 2.4p | 2.4p | 2.8p |

Source: Company data, Allenby Capital estimates

## H&T (HAT)

**Aim: Share price:** 282.5p
**Bid-offer spread:** 280-287p
**Market value:** £113mn
**Website:** handt.co.uk

- Priced on 15 per cent discount to book value
- Pre-tax profit set to double by 2023
- 2023 PE ratio of 7.3 and dividend yield of 5.8 per cent

Established in 1897, **H&T (HAT)** is the clear market leader in UK pawnbroking, a segment of the alternative credit market that is shunned by the mainstream lenders and, as such, provides a valuable source of credit to individuals lacking the financial status to borrow from high-street banks.

Operating from a chain of 254 stores across the UK, H&T's diversified product offering also includes unsecured lending, a strong new and pre-owned retail jewellery franchise, cheque cashing, Western Union money transfer and foreign currency exchange. Since listing its shares on London's junior market in 2006, H&T has exploited both organic growth opportunities and made some shrewd acquisitions.

For instance, the £10.6mn earnings-enhancing acquisition of 65 stores trading as **The Money Shop (TMS)** and 32 pledge books exploited a rare opportunity to acquire a complementary portfolio of stores in the summer of 2019. The bolt-on deal not only expanded the group's geographic footprint, but H&T's investment of £4mn of much-needed working capital into what had been a cash-strapped business enabled TMS to materially improve its trading performance. The purchase price was part-funded by a £6mn placing at 316p a share. Later that year, H&T spent £8mn acquiring 113 pledge books from Albemarle & Bond.

Of course, the Covid-19 pandemic has subsequently dampened H&T's earnings, ▶

### H&T FINANCIAL RESULTS AND ESTIMATES

| Year-end 31 Dec | Pre-tax profit | Earnings per share | Price/earnings ratio | Dividend per share | Dividend yield | Payout ratio | Tangible NAV per share | Price to tangible net asset value | Return on tangible equity |
|---|---|---|---|---|---|---|---|---|---|
| 2019A | £20.1mn | 43.9p | 6.5 | 4.7p | 1.7% | 11% | 250p | 1.13 | 18.0% |
| 2020A | £15.6mn | 32.1p | 8.8 | 8.5p | 3.0% | 27% | 282p | 1.01 | 11.9% |
| 2021E | £10.1mn | 19.8p | 14.3 | 10.0p | 3.5% | 51% | 292p | 0.97 | 6.9% |
| 2022E | £15.9mn | 31.1p | 9.1 | 13.5p | 4.8% | 43% | 313p | 0.91 | 10.3% |
| 2023E | £20.7mn | 39.4p | 7.2 | 16.5p | 5.8% | 42% | 338p | 0.84 | 12.1% |

Source: Company data, Shore Capital estimates. Dividend yield, PE ratio and price to tangible book value ratio calculated using share price of 283.5p

► so much so that analysts at house broker Shore Capital expect pre-tax profit and EPS to have fallen a third to £10.1m and 19.8p, respectively, in 2021.

Moreover, that followed a 22 per cent decline in 2020, from a 2019 high water mark when the group posted adjusted pre-tax profit of £20.1mn and EPS of 43.9p. However, there are sound reasons to believe that H&T's profits will rebound strongly this year and next.

## Primed for a strong profit rebound

Having seen H&T's pawnbroking loan book shrink during the Covid-19 pandemic as customers redeemed their pledges (a reflection of low borrowing requirements as lockdowns and travel restrictions prevented customers spending cash), a pre-close trading update revealed that pledge lending has returned to pre-pandemic levels. H&T notes positive momentum across the customer spectrum and in all geographies.

The months of November and December saw particularly strong borrowing demand, with lending volumes in December at record levels. Prudent loan-to-value ratios have been maintained to protect credit quality with average pledges around £320, while redemption rates remain stable and above historic norms – another positive indicator. By the 2021 year-end, the pledge book had grown to £67mn, up a third since June 2021 and 39 per cent higher than at the start of the year.

The point is that with the segment accounting for over half of group gross profit in the first half of 2021, the benefit of the higher pledge book will be seen in the 2022 financial performance.

Furthermore, the year-on-year comparable will be soft given the negative impact that the UK's protracted lockdown (in the first half of 2021) had on footfall in H&T's stores. The return to more regular levels of footfall this year will also benefit pawnbroking scrap activities and gold purchasing (7 per cent of H&T's gross profit in the first half of 2021).

For instance, last year scrap profit was impacted by the delay in auctions, delay in sale of diamonds due to Covid-related restrictions, and lower volumes going to scrap. In addition, the recent removal of UK travel restrictions for overseas travel will benefit H&T's foreign currency exchange business as millions of holidaymakers jet off to warmer climes. There is less competition, too, as less well-funded players have exited the market, so it's likely to be far more profitable business, too.

It's worth noting, too, that H&T's retail sales remain robust, buoyed by consistently strong demand for high-quality pre-owned watches and jewellery both online and in store. The important Christmas trading period was particularly successful.

Overall, retail sales for 2021 were up a fifth on 2020, and at improved margins. Retail performance in the second half of 2021 showed full recovery to pre-pandemic levels, with both sales and margins slightly above 2019 comparators. This is not just consumer spending being unleashed post-lockdown; H&T is benefiting from investors looking at high-end watches as an asset class – sales of both new and pre-owned items exceeded budget in 2021 – while an improved online offering has expanded H&T's presence beyond the store network.

Taking all these factors into account, analysts at Shore Capital forecast H&T will deliver a 57 per cent increase in pre-tax profit to £15.9mn and EPS of 31.1p in 2022, rising to £20.7mn and 39.4p, in 2023. On this basis, the brokerage predicts the 10p-a-share forecast dividend for 2021 will be lifted to 13.5p and 16.5p in 2022 and 2023. This implies the shares are trading on a 2023 forward PE ratio of 7.2 and offer a prospective dividend yield of 5.8 per cent.

**RETAIL SALES FOR 2021 WERE UP A FIFTH ON 2020, AND AT IMPROVED MARGINS**

## Drawing a line under FCA review of HCSTC business

Admittedly, H&T's £2.6mn personal loan book continues to reduce as repayments, recoveries and lower impairment charges more than offset new lending. This is in line with the group's strategy after it stopped lending high-cost short-term credit (HCSTC) unsecured loans after the Financial Conduct Authority (FCA) launched a regulatory review of certain aspects of this business in the autumn of 2019.

The uncertainty over any financial redress on the group's previous HCSTC lending activities is one reason why H&T's shares are trading 17 per cent below book value of 341p a share, but with conclusion of the FCA review imminent, a line is set to be drawn under the matter.

Importantly, with cash of £17mn (42p a share) on its balance sheet and £35mn of undrawn credit facilities to hand, H&T expects to be able to fund any financial penalty/customer compensation from its existing financial resources. It's worth considering, too, that HCSTC customers made total interest payments of £24mn over the six-year period under review, and H&T generated revenue less impairments of £11mn.

Even if H&T had to pay back all the interest payments in financial settlements – and that would be a worse-case scenario as not all HCSTC customers were impacted by its creditworthiness assessments and lending processes – the shares are still attractively priced given the current gap between the group's £113mn market capitalisation and NAV of £136mn (341p a share).

A premium to book value is a far more appropriate valuation for the group and a target around 400p a share seems reasonable. That price equates to 10 times 2023 projected earnings and is underpinned by a forecast 16.5p-a-share payout. Buy.

## TEKCAPITAL (TEK)

**Aim: Share price:** 29.75p
**Bid-offer spread:** 29.5-30p
**Market value:** £42mn
**Website:** tekcapital.com

- Belluscura listed shareholding backs up half of Tekcapital's own market value
- Nasdaq IPO of Innovative Eyecare likely to be well-received
- Salarius' own snack brand SaltMe! to roll out across one of the largest supermarket chains in North America
- 25 per cent discount to sum-of-the-parts valuations

### TEKCAPITAL'S PORTFOLIO FAIR VALUE ESTIMATE AT 3 FEBRUARY 2022

| Portfolio company | Carrying value 31 May 2021 | Estimated carrying value 31 January 2022 | Value per share | Proportion of shares held |
|---|---|---|---|---|
| Guident | $22.0mn | $22.0mn | 11.7p | 100% |
| Lucyd | $7.9mn | $16.0mn | 8.5p | 100% |
| Salarius | $3.6mn | $4.3mn | 2.3p | 97% |
| Belluscura | $12.8mn | $26.8mn | 14.2p | 15% |
| Smart Food Tek | $0.04mn | $0.04mn | 0.0p | 100% |
| Portfolio fair value | | $69.1mn | 36.6p | |
| Net cash | | $6.0mn | 3.2p | |
| Intangible assets | | $0.8mn | 0.4p | |
| Total NAV | | $75.9mn | 40.2p | |

Source: Tekcapital's 2021 annual accounts, and London Stock Exchange filings post 30 June 2021. Lucyd valuation based on US$20mn pre-money valuation of Innovative Eyecare used for crowdfunding round, and pre-IPO. Belluscura valuation based on share price of 117p a share. Cash balance includes £3m proceeds from placing in November 2021

**Tekcapital (TEK)**, an investment company focused on food technology, autonomous vehicles, smart eyewear and respiratory medical devices, is priced 25 per cent below conservative NAV estimates even though there is potential for material valuation uplifts from its portfolio companies.

### E-glasses growth potential

Tekcapital holds a 100 per cent stake in Lucyd, the first company to deliver prescription glasses with bluetooth technology that enables many common smartphone tasks to be performed hands-free via voice assistants. Lucyd Lyte e-glasses are prescription-ready, offer streamlined designs, have an ultra-light weight of just 1.2-1.4 ounces, and a best-in-class playback per charge.

It's a high-growth market and one that the e-glasses are set to capitalise on, being positioned at the intersection of the eyeglass, hearables and voice assistant markets, all of which have strong growth prospects:

- The eyewear market is forecast to be worth $179bn (£132bn) by the end of 2026, based on a compound annual growth rate (CAGR) of 5.7 per cent (source: Fortune Business Insights).
- The hearables market size is projected to reach $93.9bn by the end of 2026, based on a CAGR of 17.2 per cent (Source: Allied Market Research).
- More than 4bn voice assistant devices are currently in use worldwide with projected sales set to reach $5.9bn by 2026, based on a CAGR of 30 per cent (Source: VynZ Research).

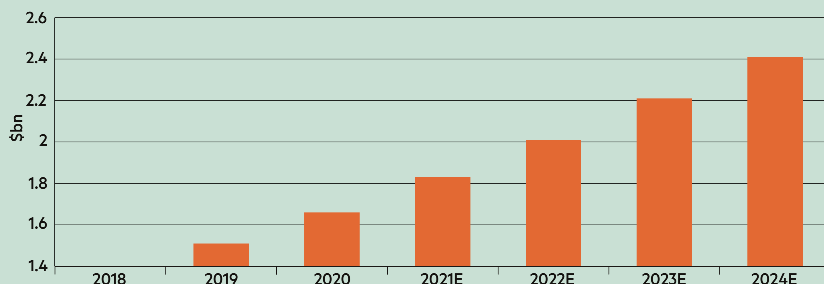
TekCapital's stake in Lucyd almost trebled in value to $7.9mn in the six months to 31 May 2021 to account for 16 per cent of Tek's closing NAV of $51mn. However, since then, Innovative Eyewear (Lucyd's 80 per cent-owned US operating subsidiary) raised $0.5mn in crowdfunding at a pre-money valuation of $20mn, which effectively doubled the value of Lucyd's equity stake to $16m. Moreover, Innovative Eyewear has now filed to list its shares on Nasdaq to raise $15mn in an IPO. The mid-point of the IPO valuation range implies an uplift of more than 50 per cent on the value of TekCapital's existing holding.

There are sound reasons to believe the IPO will appeal to investors. That's because the company is making strong operational progress since last year's product launch, when it signed a distribution agreement with D Landstrom Associates to build distribution of the bluetooth e-glasses in North America and establish distribution channels with general merchandise and speciality big-box stores including Walmart, Target and Best Buy.

Since then, the company has entered agreements with 85 direct retailing groups in addition to 31 indirect retailers in Canada through a multi-year distribution agreement with Marca Eyewear. Lucyd's goal is to have its eyewear carried in stores across North America and Europe by the end of 2022, and it is aggressively expanding its footprint, by improving its optician-centric business practices and through the introduction of a co-op marketing programme.

Sensibly Lucyd has beefed up its senior management team by appointing two notable sales directors to increase brand awareness and capitalise on the company's first-mover advantage.

### MEDICAL PORTABLE 02 MARKET EXPECTED TO GROW TO $2.4BN BY 2024



Source: Global Market Insights

### Salarius

TekCapital holds a 97.2 per cent stake in Salarius, a food technology business that owns a patented process to produce nano-particle-sized salt, Microsalt, a new natural, non-GMO, kosher, low-sodium salt.

These small crystals dissolve faster on the tongue, so you need to use less salt, thus providing 'better for you' products that taste good and reduce sodium intake, which contributes to cardiovascular disease and leads to 17.6mn premature deaths a year around the world. The US Food and Drug Administration (FDA) estimates that reducing daily sodium intake from 3,400mg to 2,300mg per day will reduce 28,000 ▶

to 50,000 premature deaths per year in the country.

Salarius' approach is to target food manufacturers, snack food manufacturers and the retail market. Sales are gaining traction as the company has signed up Kroger, one of the largest supermarket chains in North America, to roll out its own snack-food brand SaltMe! across 1,800 stores later this month. Expect other retailers to follow suit, and ecommerce sales to benefit from greater brand awareness.

The regulatory environment is favourable, too. That's because the FDA has provided the food industry with voluntary short-term goals for sodium content in commercially processed, packaged and prepared foods to reduce excess population sodium intake. This is a major positive for Salarius, and one that investors are starting to cotton on to.

At the start of 2022, US subsidiary Microsalt completed an oversubscribed crowdfund of $750,000, which placed a post-money valuation of $5.75mn on the business. This means that TekCapital's 76 per cent stake in Microsalt is now worth $4.37mn, or 21 per cent more than the 31 May 2021 valuation.

### TekCapital's valuable stake in Belluscura

TekCapital holds a valuable stake in respiratory medical device company **Belluscura (BELL:117p)**. Established in December 2015, the company completed its IPO on Aim in May 2021, raising gross proceeds of £17.5mn at 45p a share to develop and commercialise intellectual property (IP) in the medical devices space.

Belluscura's first product, the X-PLO$_2$R, is a lightweight FDA-cleared portable oxygen concentrator (POC) that has been designed to replace larger, metal oxygen tanks and heavier POC devices. Weighing less than 1.5kg, it is the world's first modular POC and generates more oxygen by weight than any other FDA-cleared POC in its class. It can deliver up to 95 per cent pure oxygen to patients 24 hours a day, seven days a week, to help improve the quality of life for millions of people worldwide who suffer from chronic lung diseases, such as chronic obstructive pulmonary disease (COPD) and respiratory distress caused by Covid-19.

It's cost-effective, too. That's because users can swap out the filter cartridges to enable higher-capacity oxygen flow without having to buy a new device; like upgrading memory on a laptop. The result is significantly more affordable oxygen therapy for the life of the patient.

## FOLLOWING THE SIGNING OF FIVE DISTRIBUTION AGREEMENTS IN NORTH AMERICA, BELLUSCURA FAR EXCEEDED ITS ANTICIPATED SALES VOLUME FOR FY2021

It's certainly proving popular with customers. Following the signing of five distribution agreements in as many months in North America, Belluscura far exceeded its anticipated sales volume for the 2021 financial year. The directors are also confident the expected run rate for unit sales and revenue this year will be materially ahead of last year's forecasts, prompting house broker Dowgate Capital to push through upgrades both in November 2021 and again in January 2022.

Dowgate now believes that by 2023 Belluscura will reach profitability and turn cash-flow positive based on 14,000 unit sales at an average price of $1,600 per unit. Having hit that inflexion point, analysts are predicting 25,000 unit sales based on a 5 per cent share of the POC market in 2024 to produce revenue of $55.1mn, cash profit of $13.7mn and EPS of 7.5p.

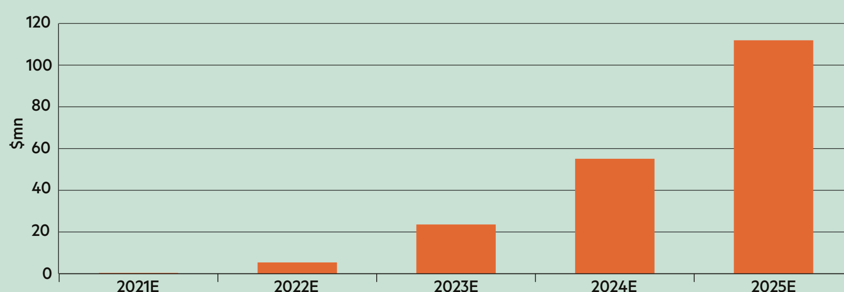
This combination of rising revenue and a relatively fixed cost base could see both cash profit and EPS more than double in 2025 based on 50,000 units being sold on a gross margin of 50 per cent. On th is basis, Belluscura's shares are trading on a forward PE ratio of 15 (2024) and 7 (2025).

Investors clearly like the company's prospects, hence why the share price has risen from 45p at IPO to 117p. It's good news for TekCapital's shareholders as the company holds 17.1mn Belluscura shares that are now worth £20m ($26.8mn), or more than double the $12.8mn carrying value in TekCapital's last accounts.

### Guident

TekCapital owns a 100 per cent stake in Guident, a developer of remote monitoring and control software to improve the safety of autonomous vehicles (AV) and land-based delivery robots. The software incorporates artificial intelligence and advanced network technologies to minimize signal latency and improve reliability.

**BELLUSCURA'S REVENUE IS SET TO SURGE AS NEW PRODUCTS LAUNCH INTO THE MEDICAL PORTABLE 02 MARKET**




Source: Dowgate Capital, 24 January 2022

**BELLUSCURA FINANCIAL FORECASTS 2021 TO 2025**

| | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Units sold | 377 | 4,000 | 14,000 | 25,000 | 50,000 |
| Revenue | $0.4mn | $5.4mn | $23.6mn | $55.1mn | $111.9mn |
| Ebitda | -$4.2mn | -$5.5mn | $1.2mn | $13.7mn | $34.0mn |
| EPS | na | na | 0.1p | 7.5p | 17.0p |
| PE | na | na | na | 18 | 8 |
| Net cash | $15.6mn | $7.0mn | $5.5mn | $17.2mn | $44.9mn |

Source: Dowgate Capital (24 January 2022)

While AVs are projected to be safer than traditional vehicles, there will still be mishaps, so Guident's management team believes remote human interaction is needed. Its first remote monitoring and control centre (RMCC) launched last year in Boca Raton, Florida to monitor multiple vehicles. The technology provides 'last-mile' delivery fleet operators with an additional level of safety, while complying with Florida law, which requires an RMCC for AVs that do not have drivers or safety operators within the vehicles. It is covered by six US patents (several with foreign counterparts) and proprietary software designed to enhance the safety of autonomous deliveries.

It's a high-growth market as consumer preference for buying products through an online source is accelerating the growth of the autonomous last-mile delivery market. In addition, delivering a package by drones or by AV is rising due to demand for fast delivery of packages, which in turn boosts the growth of the last-mile market. To capitalise on the opportunity, Guident has entered strategic alliances with two US companies, Bestmile and Cirrus Core Networks.

Guident also owns the exclusive licence to US patent 8,941,251 from the Research Foundation of the State of New York. The patent enables the manufacture of electromagnetic regenerative shock absorbers with high energy densities that can recover a vehicle's vibration energy which is otherwise lost due to road irregularities, vehicle accelerations and braking. The unique design utilises rotary mechanical motion rectifiers that can be tuned to achieve better damping characteristics than existing shock absorbers.

Two listed original equipment manufacturers have already signed non-disclosure agreements to evaluate the potential of incorporating these new shock absorbers into their electric vehicles.

The total value of Guident's patents is $28mn, although they were last valued at $22mn in TekCapital's accounts.

### Sum-of-the-parts valuation

Marking TekCapital's stake in Belluscura to market value, and factoring in the post-money valuation for the post-May 2021 crowdfunding capital raises for Salarius and Lucyd, suggests a conservative spot NAV estimate of $75.9mn (40.2p a share at current exchange rates) which is 48 per cent higher than in the 2021 accounts.

Importantly, there should be upside to all investee company valuations, so much so that I feel that TekCapital's shares are heading towards 50p. Buy.

## BILLINGTON (BILN)

**Aim:** Share price: 207p
**Bid-offer spread:** 204-210p
**Market value:** £26.6mn
**Website:** billington-holdings.plc.uk

- **Pre-tax profit forecast to almost treble to £3mn in 2022**
- **2022 estimated free cash flow of £7.2mn to double net cash to £13.6mn**
- **Forecast closing net cash equates to half the market capitalisation**

In chapter seven of *The Intelligent Investor*, the seminal 1949 work of Benjamin Graham, the father of value investing, explains: "If we assume that it is the habit of the market to overvalue common stocks which have been showing excellent growth or are glamorous for some other reason, it is logical to expect that it will undervalue – relatively, at least – companies that are out of favour because of unsatisfactory developments of a temporary nature. This may be set down as a fundamental law of the stock market, and it suggests an investment approach that should be both conservative and promising." Mr Graham's theory, as mentioned above, was that a strong balance sheet will usually see a company through any short-term difficulties and provide a "margin for safety".

Barnsley-based **Billington (BILN)**, one of the UK's leading structural steel and construction safety solutions specialists, offers exactly that. The shares have lost half their value since the start of the Covid-19 pandemic as project delays, supply chain issues and input cost pressures impacted both revenue and profits. A pre-close trading update in November 2021 revealed that delays in the construction industry would mean that certain projects will now complete in 2022. It was taken badly by investors as the shares sold off a further 20 per cent to a seven-year low.

However, this looks an opportune time to bottom fish and buy into what is a well-managed company that boasts a strong order book and good quality tender pipeline. It's worth pointing out that the directors believe that the strength of the order book "provides an increased degree of confidence for 2022 and beyond".

Indeed, having reduced its pre-tax profit estimate for 2021 by half to £1.1mn on revenue of £82mn at the time of the trading update last autumn, analyst John Cummins at house broker WH Ireland expects Billington to almost treble pre-tax profit to £3mn on revenue of £90m in 2022 as delayed projects complete and the company works through its robust order book.

On this basis, expect EPS of 20.3p and the maintained 2021 forecast dividend of 4.25p to be hiked to 4.6p. This implies the shares are being rated on a current-year forward PE ratio of 10 and offer a prospective dividend yield of 2.2 per cent.

### Sound balance sheet and net cash to recover strongly

Having built up working capital in ongoing projects that will see Billington's net cash position fall from £13.9mn to £6.9mn over the course of 2021 (WH forecasts), expect investment in inventories and trade receivables to unwind as projects complete and cash flows back into the business this year.

WH Ireland estimates £7.2mn operating free cash flow in 2022 after allowing for £2.7m of capital expenditure that is slightly higher than annual depreciation of £2.4mn. This explains why the brokerage forecasts closing net cash of £13.6mn at the end of 2022, a sum that equates to half Billington's market capitalisation.

The group has a rock-solid balance sheet, too, hence its ability to trade through a two-year period during which annual pre-tax profit has fallen from a peak of £5.9mn in 2019 to last year's projected low of £1.1mn. Indeed, NAV of £29.8mn (232p a share) included current assets of £33.4mn (mainly inventories, cash and trade receivables) at the half-year-end, a sum that is 1.8 times current liabilities of £18.4mn. Billington's strong liquidity cover and its ability to pay its bills are reassuring for both shareholders and customers. Unencumbered property, plant and equipment backs up half the market capitalisation, too.

### Understanding the profit drivers

With a heritage dating back over 70 years, Billington Structures is one of the UK's leading structural steelwork contractors. Its highly experienced workforce is capable of delivering projects from simple building frames to complex structures in excess of 15,000 tonnes.

Billington Structures' activities are ▶

► supported by the group's Shafton business, which also offers a range of steel profiling services to a diverse range of external engineering and construction companies. In turn, this provides additional opportunities to increase capacity as well as allowing for the supply of value-added, complementary products and services.

Bearing this in mind, the group's structural steel business was operating at near-full capacity for much of last year, sub-contracting production as required to its longstanding, approved supply chain. Many of the projects undertaken were in areas not significantly impacted by the Covid-19 pandemic, such as large retail distribution warehouses, rail infrastructure, Gigafactories and public sector works, which have a larger steel content per man hour than more complex projects such as commercial offices. The business is benefiting from the growth in datacentres, too.

Importantly, this work has enabled the group's facilities to operate efficiently and primed it to meet demand for projects in other sectors that had been delayed by the pandemic but are now being restarted.

Structural steel work accounts for around 90 per cent of group revenue, albeit at a lower margin than Billington's safety solutions activities, which offer perimeter-edge protection and fall-prevention systems for hire within the construction industry. Trading as easi-edge, this unit remains a significant contributor to group profit, but end-market demand remains below historic levels due to a subdued commercial office market. That said, utilisation rates are forecast to improve as the UK construction industry returns to more normalised trading conditions amid a lessening of pandemic-driven constraints.

### Low operating margins set to recover

Although raw material price increases and the availability of certain products have made for a more challenging trading environment, some industry experts believe that these cost pressures are starting to subside after the massive price hikes seen last year, thus lessening the impact on margins.

WH Ireland expects Billington's cash profit margin to rise from 3.9 to 6 per cent on 10 per cent higher revenue of £90m in 2022, the effect of which will result in 90 per cent of the £2.2mn rise in cash profit (from £3.2mn to £5.4mn) dropping through to operating profit, as well as boosting operating margin from 1.4 to 3.3 per cent. That's still low, being half the level in 2018, but it's a step in the right direction.

### Shareholder base and liquidity

Admittedly, the six largest shareholders control 73 per cent of the 12.86mn shares in issue, so they are tightly held. However, they can still be traded between the official bid-offer spread and in minimum bargain sizes of around 2,000 shares. Although liquidity is below average, with 43 per cent of the shares not in public hands, this factor is set to work in our favour as the rebound in trading, surge in profits and free cash flow generation is likely to appeal to investors and supercharge the rerating.

Add to that an 11 per cent share price discount to NAV, decent dividend yield and potential for Billington to earn a 10 per cent post-tax return on equity in 2022, and the share price looks poised for strong recovery to last September's 300p highs, and perhaps beyond. Buy.

**WH IRELAND EXPECTS BILLINGTON'S CASH PROFIT MARGIN TO RISE FROM 3.9 TO 6 PER CENT ON 10 PER CENT HIGHER REVENUE OF £90MN IN 2022**

### BILLINGTON CASH FLOW SUMMARY

| Year to 31 December | 2018A | 2019A | 2020A | 2021E | 2022E |
|---|---|---|---|---|---|
| Operating profit | £5.1mn | £6.0mn | £1.8mn | £1.1mn | £3.0mn |
| Depreciation | £1.5mn | £1.8mn | £1.9mn | £2.1mn | £2.4mn |
| Working capital | -£0.9mn | £5.4mn | -£3.1mn | -£7.0mn | £5.0mn |
| Operating cash flow | £5.4mn | £12.9mn | £0.4mn | -£3.8mn | £10.4mn |
| Net capex | -£2.0mn | -£1.8mn | -£2.2mn | -£2.5mn | -£2.7mn |
| Operating free cash flow | £2.6mn | £10.2mn | -£2.6mn | -£6.5mn | £7.2mn |
| Net acquisiitons/sale assets | £0.3mn | £0.3mn | £0.3mn | £0.0mn | £0.0mn |
| Dividends | -£1.4mn | -£1.6mn | £0.0mn | -£0.5mn | -£0.5mn |
| Share issues | £0.0mn | £0.0mn | £0.0mn | £0.0mn | £0.0mn |
| Increase/(decrease) in cash | £1.2mn | £8.5mn | -£2.7mn | -£7.3mn | £6.5mn |
| Closing net cash/(debt) | £7.6mn | £16.4mn | £13.9mn | £6.9mn | £13.6mn |

Source: WH Ireland estimates

## CONYGAR (CIC)

**Aim:** Share price: 164.5p
**Bid-offer spread:** 162-167p
**Market value:** £98mn
**Website:** conygar.com

- **Planning approval likely to be granted for Island Quarter's next phase early in 2022**
- **Work on 702-bed student accommodation scheme to start this year**
- **Fully-let Cross Hands retail park in Carmarthenshire to be put on the market for sale**

This is shaping up to be a pivotal year for shareholders in **Conygar (CIC)** as the Aim-traded property development and investment group accelerates the development of its flagship 36-acre Island Quarter site in Nottingham.

Formerly the Boots headquarters, Conygar acquired the site for £13.5mn in December 2016 and it was last valued by Knight Frank at £70.5mn to account for over half of Conygar's pro-forma NAV of £128.4mn (215p a share). Located close to the train station, Conygar plans a 2m sq ft mixed-use development encompassing a mixture of offices, residential flats, student accommodation, hotel, retail units and leisure facilities. Work on the construction of the first phase of the development (Canal Turn), incorporating a 21,500 sq ft food and beverage-led building, is scheduled for completion next month.

Expect construction of a 702-bed student accommodation scheme on one acre of the Nottingham site to start this year, too. There is no shortage of demand as the city has a large student population desperately in need

of housing. In fact, students regularly bus in from surrounding towns, such is the lack of adequate accommodation available to them in the city.

Chief executive Robert Ware believes the scheme could generate a rent roll of £5.7mn based on market rents. This would imply a valuation of around £90mn based on current regional purpose-built student accommodation (PBSA) yields when construction completes in September 2023 ahead of the 2023-24 academic year. Construction costs of £54mn will be largely debt-funded, so Conygar could make a £30mn (60p a share) gain on the PBSA scheme alone after accounting for funding costs.

Furthermore, Ware expects planning approval to be granted shortly for the project's next phase, encompassing a 223-bedroom hotel to be managed by InterContinental Hotels, 247 residential apartments and 3,000 sq metres of flexible office space. The Nottingham residential market has been a regional hot spot during the current housing boom, so Conygar should have no difficulty securing funding offers for the first phase of 247 build-to-rent (BTR) flats, a tiny fraction of the potential 3,500 flats that could ultimately be built on the site, subject to planning approval. Ware is actively looking at debt funding, joint venture partners or selling assets to fund the Nottingham Island Quarter project.

It's worth noting that Knight Frank's valuation of Island Quarter equates to less than £2mn per acre, or half the £4mn per acre paid by the University of Nottingham for a nine-acre city centre office site, currently used by HMRC, that will become a new campus. Conygar's PBSA scheme only accounts for one acre of the 36-acre site, so there is material scope for additional valuation uplifts as the project develops.

For instance, the directors are in discussions with several organisations about taking commercial space on the site, including office space totalling 250,000 sq ft. Should these negotiations progress, it is expected that part of the net proceeds of December's £10.7mn placing will be used to fund the design and planning processes as required.

### Strong balance sheet

Importantly, Conygar is in a strong cash position. Having ended the six months to 30 September 2021 with net cash of £13.7mn, the group subsequently raised £10.7mn in an oversubscribed placing at 150p, on 17 December 2021. A few days later, Conygar completed the disposal of its industrial units in Selly Oak, Birmingham to **Watkin Jones (WJG)**, a leading developer specialising in PBSA and BTR housing, having previously agreed a conditional sale of the property, subject to change of use to PBSA. The disposal realised £7.17mn, or double book value.

Canal Turn: A new, canal-side destination for Nottingham with restaurants, bars and events space led by 2018 *MasterChef The Professionals* winner, Laurence Henry

In addition, Conygar plans to put its Cross Hands retail park in Carmarthenshire on the market for sale. It is fully occupied and produces annual rental income of £1.38mn from a strong and diverse tenant base including Lidl, B&M Retail, Costa Coffee, Iceland Foods, Domino's Pizza, Pets at Home, Burger King and Snap Fitness. The rent roll equates to 7.7 per cent of book value of £17.7mn. It should be easy to offload given that the retail warehousing market is recovering strongly.

### Priced on a deep discount to break-up value

After accounting for investments made in projects since 30 September 2021, my pro-forma NAV estimate of £128.4mn (215p a share) includes pro-forma cash of £24.7mn and £34.5mn of development and trading property, including the Cross Hands retail park. Factor in other current assets (mainly trade and other receivables), and I estimate that Conygar's current assets less all liabilities equate to around half its market capitalisation of £98mn.

Effectively, this leaves the Island Quarter scheme (£70.5mn last valuation, plus £6mn earmarked to complete the Canal Turn phase) and £2.9mn of deferred tax assets in the price for only two-thirds of their combined value, even though Island Quarter's undeveloped land is in Conygar's accounts for half the value per acre that similar nearby land parcels have sold for recently. Assuming the directors do further deals to unlock the value in the Nottingham project, as seems highly likely, then shareholders can expect substantial hikes in NAV.

There is value in the group's other development assets, too. For instance, key infrastructure has now completed at Conygar's Haverfordwest site (book value £8.6mn), thus enabling the sale of 729 plots of residential land; and the group's strategic land holdings in Anglesey could become hot property if the UK government presses the button on its mini-nuclear power station strategy. Buy.

## HENRY BOOT (BOOT)

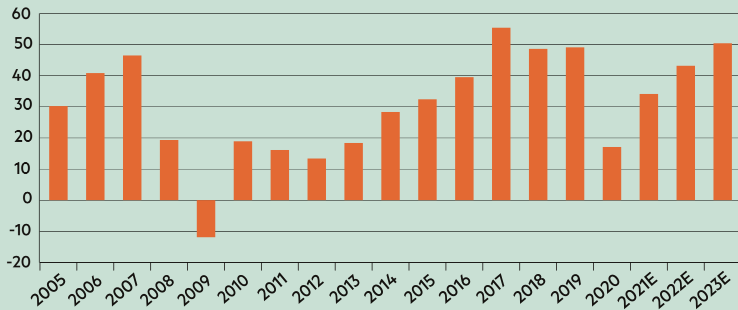
**Main: Share price:** 283p
**Bid-offer spread:** 281-285p
**Market value:** £377mn
**Website:** henryboot.co.uk

- 40 per cent discount to sum-of-the-parts valuations
- 39 per cent EPS growth forecast in 2022 following recent upgrades
- Current-year forward PE ratio of 11 set to fall to below 10

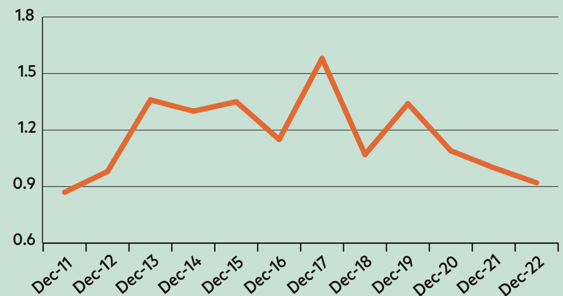
Established over 135 years ago, Sheffield-based **Henry Boot (BOOT)** is one of the leading land development, property investment and development, and construction-based companies in the UK. It's incredibly well-run by respected management who have a track record of delivering, hence why the shares have produced an average annual total return of 12.4 per cent over the past two decades. Reinvest the income, and the holding has effectively doubled in value every six years.

Despite the impressive track record, the group's market capitalisation is at parity with analysts' end-2022 NAV estimates of £375mn, even though the balance sheet is modestly geared – net borrowings of £44mn at the end of 2021 – and includes a portfolio of investment properties valued at £106mn (including £12mn in joint ventures) as of the middle of last year.

The investment property portfolio not only offers upside – it produced an investment return of 6.7 per cent in the first half of 2021 – but a decent income stream underpinned by a 96 per cent rent collection rate, 88 per cent occupancy and weighted average unexpired lease ▶



Source: Company, Panmure Gordon, 18 January 2022



Source: FactSet, Panmure Gordon estimates, 18 January 2022

► term of 11 years. The portfolio mitigates earnings and investment risk, too.

Not that there seems to be much risk on the table right now, as a pre-close trading update ahead of annual results on 23 March 2022 prompted analysts at Panmure Gordon to upgrade their 2021 pre-tax profit estimates by 10 per cent to £34.1m. The broking house also pushed through eye-catching 14 per cent upgrades for 2022 when analysts expect pre-tax profit of £43.2m. On this basis, EPS will more than double last year to 18.7p to cover a forecast dividend of 6p a share three times over, and are expected to hit 25.9p in 2022 when a 6.5p-a-share payout is forecast.

Such is Henry Boot's growth trajectory, and strength of the order books and development pipeline, that there is a fair degree of confidence in 2023 forecasts that factor in 11 per cent EPS growth. On this basis, a current-year forward PE ratio of 11 is set to fall to below 10. All segments of the business are supporting the growth.

### Firing on all cylinders

Hallam Land, the group's land promotion division, has maintained the strong momentum shown in the first half of 2021 when it delivered a third higher operating profit of £14.8mn by selling 2,288 plots at an average profit per plot of £6,188. A strong housing market continues to underpin the business as housebuilders invest to match ongoing demand for homes from homebuyers. Moreover, Hallam added over 1,000 acres to its land bank in the second half, which subject to planning has potential to deliver 7,600 plots.

The total land bank of 92,500 plots includes a strategic land portfolio that is held as inventory at the lower of cost or net realisable value. In accordance with this conservative accounting policy, no uplift in value is recognised within Boot's accounts relating to any of the 13,273 plots over which planning permission has already been secured. This means that any increase in value created from securing planning permission is only recognised on disposal, hence why the group makes bumper profits on sales.

To put the actual value of the land holdings into perspective, analysts at Panmure Gordon estimate that Hallam Land's land portfolio is worth £250mn on a simple recovered earnings basis if sold to a strategic buyer. This valuation is based on annual sales of 3,000 plots, the average for 2016 to 2019. However, given that the group is targeting 3,500 plot sales per year, then there could be 15 per cent upside to that valuation, implying a value closer to £290mn.

Effectively, what this means is that the underlying value of assets in the group's land holdings and investment property portfolio back up almost all of the company's £375mn market capitalisation. That leaves over £300mn of other assets in the price for free, including a residential housebuilder, Stonebridge Homes, Henry Boot Construction business, and a property development operation.

**THERE IS SIGNIFICANT HIDDEN VALUE IN HENRY BOOT'S DEVELOPMENT DIVISION**

### Trading on 40 per cent discount to sum-of-the-parts valuations

Leeds-based premium housebuilder Stonebridge looks a hidden gem, completing 120 unit sales last year in a buoyant housing market in its North of England heartland. Its management has been investing in both headcount and land to scale up the operation, too.

Stonebridge's owned and controlled land bank currently stands at 1,157 plots, of which 912 plots have either detailed or outline planning permission, including a recent acquisition of a site at Armthorpe, Doncaster, which has detailed permission to deliver 232 plots.

In total, the land bank provides 5.7 years' supply based on a one-year rolling forward sales forecast. Stonebridge has secured more than two-thirds of its annual delivery target of 204 units for 2022, and the board's strategic objective is to grow this business to building 600 units per year.

Based on that aggressive output target, an average selling price of £350,000 and 15 per cent operating margin, Stonebridge could be making operating profit of more than £30mn within a few years. Henry Boot owns a 50 per cent share in the joint venture company, so even if you attribute a modest nine times earnings multiple to its share of the profits it's possible to arrive at a £140mn-plus valuation in the coming years. However, I am more conservative and value Henry Boot's share at £50mn based on 2022 output forecasts of 204 units.

There is significant hidden value in Henry Boot's Development (HBD) division, too. At the half-year-end, the business was working on 13 projects with a combined gross development value (GDV) of £444mn and had a short to medium-term pipeline with a GDV of £1.4bn. These projects are targeted

Henry Boot Development has started work to regenerate the 44-acre former James Bridge Copper Works in Walsall

## HENRY BOOT SUM-OF-THE-PARTS VALUATION

| Company | Valuation | Basis of estimate for fair value assessment |
|---|---|---|
| Hallam Land | £290mn | Based on annual sales of 3,500 plots and on recovered earnings basis |
| Henry Boot Development | £182mn | Assumes delivery of projects worth £200mn GDV per year on 10 per cent operating margin and 9 times earnings multiple |
| Stonebridge | £50mn | Based on 200 units sales for 2022 and nine times operating profit margin |
| Henry Boot Construction | £24mn | Multiple of eight times operating profit of £3mn |
| Banner Plant | £17mn | One times book value |
| A69 Road Link PFI contract | £20mn | Five years of post tax profit |
| Investment portfolio | £94mn | Book value at 30 June 2021 |
| Other assets | £6mn | Book value at 30 June 2022 |
| Valuation | £683mn | |
| Net debt (31 December 2021) | £44mn | |
| Sum-of-the-parts valuation | £639mn | |
| Shares in issue | 133.3mn | |
| Sum-of-the-parts valuation per share | 479p | |

Source: Investors' Chronicle

## HENRY BOOT EARNINGS ESTIMATES

| Year end 31 Dec | Sales | Pre-tax profit before amortisation | Earnings per share | Dividend per share | Price/ earnings ratio | Enterprise valuation/ Ebitda ratio | Dividend yield |
|---|---|---|---|---|---|---|---|
| 2020A | £222.4mn | £17.1mn | 8.9p | 5.5p | 31.9 | 20.4 | 1.9% |
| 2021E | £232.8mn | £34.1mn | 18.7p | 6.0p | 15.1 | 16.1 | 2.1% |
| 2022E | £285.0mn | £43.2mn | 25.9p | 6.5p | 10.9 | 11.8 | 2.3% |
| 2023E | £354.2mn | £50.4mn | 28.9p | 7.0p | 9.8 | 8.7 | 2.5% |

Source: Company data, Panmure Gordon estimates (18 January 2022)

across the industrial (72 per cent), residential (17 per cent) and urban commercial (11 per cent) markets.

Since the half-year end, HBD has acquired a site in Welwyn Garden City to deliver 71,000 sq ft of industrial warehouse space (GDV of £20mn), a build-to-rent scheme in Birmingham (GDV of £110mn) and a 20-acre industrial site in Rainham, London (GDV of £24mn). HBD has also been selected as preferred bidder to deliver a 200-acre scheme at Cheltenham Borough Council's Golden Valley Development, which is expected to create 12,000 new jobs, 3,700 new homes and 2m sq ft of commercial space. Analysts value HBD at around £182mn on a standalone basis based on the business delivering £200mn of projects a year on a 10 per cent operating margin.

There are three other main assets held by the group, which are valued as follows:

- £24mn valuation for Henry Boot's low-margin construction division (based on eight times earnings multiple).
- £20mn for a private finance initiative (PFI) 30-year contract to operate and maintain the A69 trunk road between Carlisle and Newcastle.
- £16.8mn book value for the group's long-established plant hire company Banner.

On this basis, I arrive at a sum-of-the-parts valuation for the whole group of £639mn (479p a share), or 70 per cent above the current market capitalisation which is right at the bottom of the price-to-book range (1 to 1.4 times) over the past decade.

In a sector where consolidation is a feature, I am unlikely to be the only one running the slide rule over the business. Buy.

## SYLVANIA PLATINUM (SLP)

**Aim:** Share price: 92.5p
**Bid-offer spread:** 92-93p
**Market value:** £252mn
**Website:** sylvaniaplatinum.com

- Payout of 9.7p a share forecast, implying prospective dividend yield of 10 per cent
- Rated on cash-adjusted PE ratio of 2.5
- Rhodium share of production being between two and three times that of its peers

**Sylvania Platinum (SLP)** is a fast-growing and low-cost South African producer and developer of the platinum group metals (PGMs) platinum, palladium and rhodium, with two distinct lines of business: the re-treatment of PGM-rich chrome tailings material from mines in South Africa's North West Province; and the development of shallow mining operations and processing methods for low-cost PGM extraction.

The company's dump operations comprise seven active PGM recovery plants that treat chrome tailings from surrounding chrome mines. The chrome tailings re-treatment plant is located at Kroondal, and is managed by Aquarius Platinum Corporate Services. The operations are hugely profitable, producing 70,000 ounces (oz) of PGMs annually – although, as commodity prices in this space have softened since hitting highs in the first half of 2021, Sylvania's own profits will decline slightly in the current financial year to 30 June 2022.

However, this is more than baked into the current valuation with the shares trading on a forward PE ratio of four even though house broker Liberum estimates that Sylvania will have net cash of $125m by the 30 June 2022 year-end, up from $110mn on 31 December 2021. That forecast cash pile is worth 34p a share, so on a cash-adjusted basis the ►

► shares are effectively being priced on 2.5 times EPS of 33.1¢. Liberum also predicts that cash could hit $217m by June 2023, too, a sum worth almost 60p a share.

Furthermore, after Sylvania paid out 7.8p a share of dividends in the 2020-21 financial year, analysts at house broker Liberum expect a total payout of 9.7p (including a special dividend) for the current year to 30 June 2022. On this basis, the prospective dividend yield is 10 per cent. There are sound fundamentals supporting these forecasts.

## Operationally geared to higher automotive production

Sylvania is one of the lowest-cost producers in the world – an average basket price of $2,892 per oz in the second quarter of the current financial year was more than treble the $862-an-oz cash cost from its dumping operations. The huge profit margin reflects Sylvania's rhodium share of production being between two and three times that of its peers, accounting for 57 per cent of group revenue.

Rhodium is a mining by-product whose major use is as a catalyst in three-way catalytic converters in cars. The metal is between two and three times more effective than platinum in the auto-catalyst and helps reduce nitrogen oxide emissions, so stricter emission targets imposed by governments have been buoying end-market demand from the automotive industry in recent years.

However, as has been well-documented, global automotive production rates were subdued last year due to the ongoing extreme tightness in the global supply of semi-conductors – a critical input for all modern vehicles. In fact, industry experts estimate that the waiting time for semi-conductor chips has more than doubled to over 25 weeks since the start of 2021. In turn, this has had a negative impact on PGM demand in all key auto-producing centres. The global automotive sector is likely to have only delivered 75mn light vehicles in 2021, down 15 per cent on pre-virus levels (2015-19), which has reduced total PGM demand by 2.4mn oz. As a result, spot prices have retreated and have remained subdued since May 2021 in response to deterioration in downstream demand and a build-up of surplus PGM for use in the auto-catalyst.

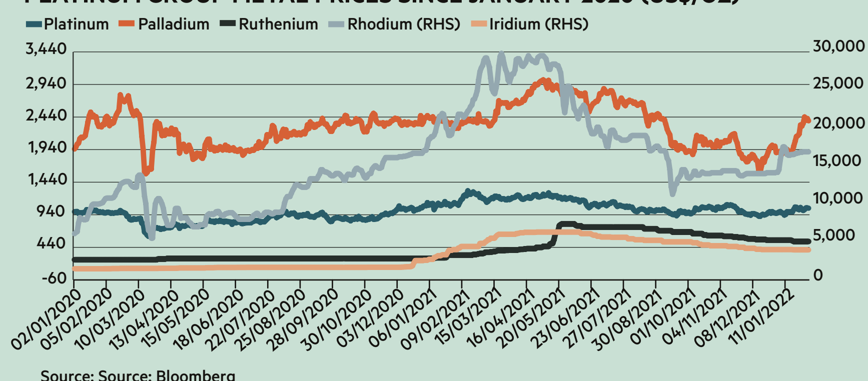
Bearing this in mind, and based on downstream industry activity, analysts at Liberum continue to forecast a recovery in chip supply in the first quarter of 2022, noting that "such an event is likely to prompt a lift in the buying rate of all automotive raw materials, lifting demand/prices for the PGM complex".

The broking house predicts auto-catalyst demand for rhodium to recover to 975,000 oz, up from 903,000 oz in 2021 and close to the 1m oz peak in 2019. Given that chemical, glass and electrical and other industrial industries account for 122,000 oz of global demand, this implies total global demand for the commodity of 1.1m oz.

The issue is that total mine output is only expected to be 750,000 oz, which means that recycling needs to hit a record high of 375,000 oz for the market to be in equilibrium. However, with used car prices surging in the past year, and used car inventories at record lows, scrap recycling volumes of rhodium will only recover once auto production recovers and inventories normalise. Forecasts of record levels of recycling may be too bullish. Any shortfall would be another positive for both the rhodium price and Sylvania's profits.

It's telling that the rhodium price rallied 18 per cent to $16,750 per oz in the first five trading days of the year, albeit that is still well off last year's all-time high of $27,000 an oz. ETF holdings have unwound to low levels and have yet to rebuild, so any increase in interest from

**PLATINUM GROUP METAL PRICES SINCE JANUARY 2020 (US$/OZ)**




Source: Source: Bloomberg

**SYLVANIA PLATINUM KEY MODEL INPUTS**

| Assumptions | 2017A | 2018A | 2019A | 2020A | 2021E | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|---|---|---|
| Platinum (US$/oz) | 987 | 942 | 826 | 870 | 1,051 | 1,084 | 1,238 | 1,188 |
| Palladium (US$/oz) | 736 | 965 | 1,231 | 1,900 | 2,440 | 2,256 | 2,075 | 1,625 |
| Rhodium (US$/oz) | 821 | 1,626 | 2,662 | 7,068 | 18,891 | 16,569 | 20,375 | 18,750 |
| Gold (US$/oz) | 1,258 | 1,297 | 1,263 | 1,562 | 1,848 | 1,751 | 1,633 | 1,633 |
| Rand:US dollar | 13.6 | 12.9 | 14.2 | 15.7 | 15.4 | 15.3 | 16.1 | 16.6 |
| PGM production | 70,869 | 71,027 | 72,089 | 69,026 | 70,044 | 70,427 | 78,610 | 78,610 |

**SYLVANIA PLATINUM PROFIT FORECASTS**

| Year to 31 Dec | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|
| Sales | $208mn | $205mn | $215mn | $204mn |
| Ebitda | $148mn | $137mn | $147mn | $134mn |
| Operating profit | $142mn | $131mn | $141mn | $128mn |
| Operating profit margin | 68.3% | 64.1% | 65.8% | 62.8% |
| Net interest | $1.9mn | $3.8mn | $5.3mn | $8.6mn |
| Pre-tax profit | $144mn | $135mn | $147mn | $137mn |
| Fully diluted earnings per share | 36.8c | 33.1c | 36.5c | 33.0c |
| Dividend per share | 7.8p | 9.7p | 7.0p | 8.0p |
| Leverage | 2021A | 2022E | 2023E | 2024E |
| Net cash | $106mn | $125mn | $217mn | $290mn |
| Net cash/EBITDA | 71.6% | 91.2% | 147.6% | 216.4% |
| Net cash/Market capitalisation | 31.1% | 36.7% | 63.7% | 85.1% |

Source: Liberum Capital, Bloomberg. All numbers are stated on a post-IFRS 16 basis (e.g. net debt includes finance leases)

investors building new positions will have an accentuated impact on price.

Liberum expects the rhodium price to continue rising to a level in excess of $20,000 an oz in the second half of 2022, fuelled by recovery in auto industry production rates, the sector accounting for 86 per cent of global demand for the commodity.

If these predictions pan out – and it seems a highly plausible scenario – then Sylvania's underlying pre-tax profit could bounce back to $147mn in the 2022-23 financial year, after dipping slightly from $143.8mn to Liberum's current forecast of $135.1mn in 2021-22. The broking house has factored in rhodium prices of $16,569 an oz and $20,375 an oz into its models for the respective financial years.

Please note that the group's interim results to 31 December 2021 are due to be released on Monday, 21 February and will show first-half revenue down 28 per cent to $61.2m, Ebitda of $36.9mn (from $58mn in the first half of the 2020-21 financial year) and a net profit of $24.1m ($40.5m). This is due to the weakness I highlighted in PGM prices in the reporting period. However, the second half is now benefiting from much higher PGM prices, which supports Liberum's expectations of only a modest decline in the group result for the 12-month period to 30 June 2022. That's because the incremental margin earned from rising metal prices drops straight through to the bottom line.

**2021 BARGAIN SHARES PORTFOLIO PERFORMANCE**

| Company name | TIDM | Market | Opening offer price 05.02.21 | Bid price 03.02.22 | Dividends | Percentage change (%) |
|---|---|---|---|---|---|---|
| Vietnam Holding (see note one) | VNH | Main | 201.4p | 322p | 0.0p | 71.0% |
| Duke Royalty | DUKE | Aim | 29p | 41.5p | 2.25p | 50.9% |
| San Leon Energy | SLE | Aim | 27.5p | 40.75p | 0.0p | 48.2% |
| Wynnstay Group | WYN | Aim | 424p | 590p | 15.0p | 42.7% |
| Ramsdens | RFX | Aim | 142.8p | 180p | 0.0p | 26.1% |
| Canadian General Investments | CGI | Main | 3,611c | 4,204c | 88c | 18.9% |
| Springfield Properties | SPR | Aim | 135.6p | 152p | 5.75p | 16.3% |
| Anexo | ANX | Aim | 136.9p | 147p | 1.5p | 8.5% |
| Downing Strategic Micro-Cap | DSM | Main | 69p | 70p | 0.8p | 2.6% |
| Arix Bioscience | ARIX | Main | 177p | 119p | 0.0p | -32.8% |
| Average | | | | | | 25.2% |
| FTSE All-Share Total Return | | | 7,135 | 8,466 | | 18.7% |
| FTSE AIM All-Share Total Return | | | 1,384 | 1,276 | | -7.8% |

Note One: Simon recommended tendering 30 per cent of holdings in Vietnam Holdings at US$4.4528 (322.3p) a share, and tendering 3.9 per cent in the excess application ('Exploiting a tender offer', 4 August 2021), with a view to buying back the tendered shares at the lower market price (284p offer price on 13 and 14 September 2021) when the cash distribution was made during the week of 13 September 2021. Total return reflects these transactions which have reduced the entry point to 188.3p a share.
Source: London Stock Exchange.

## Shift to electric vehicles unlikely to dampen PGM demand

Analysts at research consultancy LMC Automotive forecast an 11 per cent decline in sales of gasoline and diesel vehicles globally between 2019 and 2027, but a quadrupling for hybrids that require high PGM loadings, leading to a 9 per cent increase overall for vehicles needing PGMs in the catalyst.

Interestingly, analysts at Liberum have quantified the price point at which carmakers earn a better margin on a battery electric vehicle than an internal combustion engine (ICE) vehicle, estimating that carmakers earned about $7,000 higher margin on ICE sales than on electric vehicles in 2020. McKinsey estimates that this margin could drop to zero by 2025, particularly through cost reduction of the battery pack, which would represent an inflection point in electric vehicle demand as mass adoption should follow thereafter.

Bearing this in mind, for rhodium to absorb the entire margin differential for ICE over electric vehicles prices would have to go significantly higher at current loadings ($100,000 an oz until 2024) to make a difference to the economics of car manufacturing.To put it another way, there is an incentive for carmakers to absorb the current rhodium price on ICE vehicle sales given the far higher profit margin they earn over electric vehicles. This is good news for PGM producers, another factor that is being ignored in the bargain-basement valuation of Sylvania. Buy. ●

*Simon Thompson's latest book Successful Stock Picking Strategies and his previous book Stock Picking for Profit can be purchased online at www.ypdbooks.com, or by telephoning YPDBooks on 01904 431 213 to place an order. The books are being sold through no other source and are priced at £16.95 each plus postage and packaging of £3.25 [UK].*

*Promotion: Subject to stock availability, the books can be purchased for the promotional price of £10 each plus £3.25 postage and packaging, or £20 for both books plus £3.95 postage and packaging*

*They include case studies of Simon Thompson's market-beating Bargain Share Portfolio companies outlining the investment characteristics that made them successful investments. Simon also highlights many other investment approaches and stock screens he uses to identify small-cap companies with investment potential. Details of the content can be viewed on www.ypdbooks.com.*

**BARGAIN SHARES PORTFOLIO 2022**

| Company name | TIDM | Market | Activity | Mid-price | Market value | Bargain rating |
|---|---|---|---|---|---|---|
| Tavistock Investments | TAVI | Aim | Financial advisory services | 4p | £23.2mn | 1.11 |
| Vector Capital | VCAP | Aim | Secured property lender | 44.5p | £20.1mn | 1.15 |
| H&T | HAT | Aim | Financial services group | 283.5p | £113.1mn | 0.74 |
| Tekcapital | TEK | Aim | Technology investment company | 29.75p | £42.0mn | 0.57 |
| Billington | BILN | Aim | Structural steel and construction safety solutions | 207p | £26.6mn | 0.51 |
| Conygar | CIC | Aim | Property developer and investor | 164.5p | £98.0mn | 0.49 |
| Henry Boot | BOOT | Main | Land development, construction, property investment and development | 283p | £377.2mn | 0.48 |
| Sylvania Platinum | SLP | Aim | Platinum group metals producer | 92.5p | £252.5mn | 0.46 |

Source: London Stock Exchange RNS and company accounts