In its twenty-sixth year
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“Relative strength is the only growth variable that consistently beats the market”

The Momentum Investor

STOCKMARKET NEWSLETTER

Authoritative Independent Monthly Share Selections using Technical & Fundamental Analysis

This Issue

- - -

FTSE-100: 8680
FTSE-All Share: 4688
Small-Cap: 6588

Next issue on Saturday 19 April

Helios Towers

Sector: Telecommunications. Share Price: 97p Epic Code: HTWS

Key Data

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Shares in issue:	1bn
Market Capitalisation:	£0.97bn
Next Results:	Finals: 13 March

Airtel Africa, which I originally featured at 115.5p in January and again as a main write-up last month, is bucking the wider stock market sell-off after founder and Chairman, Sunil Bharti Mittal, invested a mammoth £216m at 132p on 21 February (now holding 61.7%) and it could break out at any time with the spin-off of Airtel Money expected later this year. Airtel Africa introduced me to the emerging market for renting out bandwidth on telecom towers (the tall structures designed to support antennae for telecommunication and broadcasters) across Africa. This is a “mission critical” service to the mobile sector, where voice and data usage is significantly less mature than in the West but catching up rapidly, driven by the digital economy, technology evolution (4G and 5G) and faster growing populations. Large MNOs (mobile network operators) simply don’t want the hassle and expense of managing their own infrastructure and are outsourcing their needs, whilst shaving an estimated 30% off running costs, to a new wave of telecom tower owners and operators. The latter then benefit from the annuity-like revenues and inflation-protection from long-term contracts of 10-15 years plus renewals. This market is forecast to expand from 217,000 to 273,000 towers across Africa between 2025-30 and Helios Towers, the subject of this write-up, is at the fore-front, having doubled its estate from around 7,000 to over 14,000 towers.

Free cash flow inflection point

Trading wise, Helios is firing on all cylinders. Having beaten its original guidance for both 2023 and 2024 (announced at last November’s Q3 update) Helios has hit the proverbial ball out of the park with EBITDA soaring from US$178m in FY’18 to an expected US$420m in FY24. Latest forecasts point to EBITDA of US$475m and US$533m this year and next. As is typical with any infrastructure owner, whether it be warehouses, offices or airports, Helios Towers has funded the expansion of its estate of towers by issuing bonds. Rising bond yields have therefore previously acted as a headwind on the shares. While Helios’ average interest rate inched just over 7% after a major refinance last year, it has extended its average maturity and the next tranche of bonds - US$300m convertible bonds - is not due until 2027, with another US$325m in 2028 and the bulk (US$850m) in 2029.

EV/ EBITDA just 7.2x vs sector average 18x

More important still, 2024 represented a vital inflexion point where operating profit is expected to significantly exceed debt interest charges for the first time and free cash flow is forecast to balloon. Therefore, having reduced net debt / EBITDA from a peak of 5.1x in FY22 to the current 4.2x, management now targets a further reduction to 3x by FY’26.

As debt converts to equity, I can see these shares rocketing given their current under-valuation. Deutsche Bank says Helios trades on an EV / EBITDA of just 7.2 versus 17-18x for its European and US TowerCo rivals.

History

Helios Towers was founded in 2009 by Chuck Green, the founding CFO of Crown Castle (NYSE: CCI) International, one of the world’s leading telecoms tower operators who had earned his spurs executing 10 sale and leaseback transactions involving the acquisition of more than 14,000 sites with MNOs and broadcasters in the US and internationally. With Crown Castle having increased from around US$10-a-share in 2004 to a peak of almost US$220 in 2022, it wasn’t hard to attract a roll call of top investors to Helios including certain

Rothschild Funds, (Madeline) Albright Investments, George Soros' Newlight Partners, which still holds 13.2%, RIT Capital Partners (3.2%) and IFC (4.5%).

Power management improves

The group initially entered into Ghana in 2010 rapidly followed by Tanzania, Democratic Republic of Congo (DRC), South Africa and Congo Brassaville, and by 2015 it had reached 4-5,000 towers. As I am learning, key operational dynamics in Africa are subtly different to the USA with power management capabilities a key skill in a continent where access to the grid can be significantly restricted and in some remote areas doesn't exist at all. Therefore, in 2015 Helios head hunted new CEO Kash Pandya from temporary power firm Aggreko, and he oversaw a massive improvement in power uptime across its estate with average power outages reducing from 25 minutes per tower per week to less than one minute!

Acquisitions double footprint

By the time Helios listed in London in October 2019 it had grown to 6,800 towers but then set an ambitious target to reach 12,000 across eight markets within five years. In the event, it hit the target two years early, partly via some sale and leaseback deals to acquire sites from Airtel Africa, its largest customer, but mainly thanks to several acquisitions that added new markets in Africa (Madagascar, Malawi, Senegal) as well as Oman in the Middle East. The latter was by far the largest, bringing in 2,890 sites for a consideration of US$615m including debt. But with interest rates rising, management sensibly pivoted to organically driven growth through greenfield towers complemented by the addition of new customers (tenants) to existing ones.

Four main customers

At present Helios therefore operates from 14,000 towers across nine markets serving four main customers: Airtel Africa (26% revenues), Vodafone (22%), Axian (14%) and Orange (11%). It's now well diversified with its largest territory, Tanzania, reducing from 52% of sites in 2020 to just 29% of a larger base.

When choosing its markets management has carefully ensured the dice are loaded in its favour. The foundation driving underlying growth is the fact that Africa is around 15 years behind the West with low mobile penetration of just under 50% and relatively fast-growing and young populations. The United Nations forecasts Africa and Middle East to increase from 1.7bn in 2023 to 2.9bn people by 2050 while urbanisation is also rampant with, for example, Dar es Salaam, Tanzania projected to double its population to 13.4m between 2020-2035 with Kinshasa in the DRC to rise 86% to 26.7m.

Increased data usage drives demand

As the younger adults gain their first jobs and progress through their careers, their rising disposable incomes will be spent on upgrading entry level 2G phones to the latest 4G and 5G and in turn they will stream more videos, music, games and various apps. That leads to a constant demand for extra bandwidth from their customers, like Vodafone and Airtel, who will approach Helios to lease more space from its towers to host their equipment such as antennae. One report estimates that the number of mobile and data customers in Africa and The Middle East will rise 23% and 29%, respectively, between 2023-2028 versus just under 5% for the Rest of the World.

High market share

Helios has other strict market criteria, too, including "hard currency" countries - Oman is pegged to the dollar and Senegal and Congo B. to the Euro and these represent 71% group EBITDA - as well as at least 3-4 mobile network operators in the area. Other key criteria include market leadership or number two positions and most obviously of all, these countries must have under-developed power infrastructure. For example, in Oman its market share is now 50% and in DRC and Tanzania it's as high as 60%, with competition mainly in the form of MNOs continuing to own their own towers. Helios' two rival US-quoted operators, American Towers and IHS, only overlap with it in South Africa.

Market regulators tend to frown on granting additional tower licenses in the immediate vicinity of

Burford Capital (BUR), 1034p

During the Global Financial Crisis a revolution took place in the legal world in which corporate clients started resisting the hourly billing system and demanded their lawyers front some or all of the case costs themselves - in other words, "no win no fee." The problem was how to find the extra cash to pay their salaries and other expenses given many countries, notably the US, don't allow outsiders to become shareholders. Out of this conundrum, litigation finance, where an outside firm provides capital either to law firms or large corporates to finance their various claims, was born and Burford Capital is one such player. Having launched with a modest US$130m fund in 2009, that had increased to US$4.6bn by FY20 and a whopping US$7.4bn at FY24.

Guernsey-based Burford, which now operates out of seven offices worldwide, derives half its business from the USA with Europe, Middle East and Africa a further quarter. Its four biggest areas are bankruptcy / insolvency, intellectual property, anti-trust and arbitration, accounting for 80% of capital deployed.

Immediately standing out are the high returns on its US$3.3bn of asset realizations since inception. Just over three quarters have been settled without going to court, generating a 22% internal rate of return (IRR) or 69% return on invested capital (ROIC), while the vast majority of remaining claims that did go to court resulted in wins, leaving Burford's overall IRR standing at 26% and ROIC at 87%. You will be hard pressed to find a rival, or indeed any hedge fund generating better returns, and the shares, aided by a dual listing in New York in October 2020, have appreciated significantly.

Of particular excitement now is a case involving investment group Petersen, which went into bankruptcy when the Argentinian Government expropriated its 25% stake in national oil company YPF. That case has gone to appeal but Burford has already started enforcement action, with the damages worth over US$16bn of which Burford, even after profitably selling down its stake, still holds 35%. If it wins it will be entitled to over US$6bn.

Burford is conservatively carrying Petersen in its books at just 22% of the judgement amount, leaving up to US$4.7bn (£3.7bn) of potential upside, almost 150% of its market value! Berenberg forecasts net tangible book value per share to rise from 985 cents (762p) in FY23 to 1233 cents (955p) this year and 1408 cents (1090p) next. The broker's price target is 1600p. *An interesting speculative opportunity.*

SSP Group (SSPG), 160p

SSP is one of three dominant operators worldwide in the market for supplying retail and food concessions to airports and railway stations and is best-known for its ownership of the *Upper Crust*, *Café Ritazza* and *Millies Cookies* brands. During the Pandemic the company took an absolute hammering as lock-downs prevented people from travelling but the past couple of years have seen something of a renaissance as air travel has returned to normal. SSP posted turnover and EBITDA of £2,184m and £142m, respectively, in the year ended 30 September 2022 and that's grown to £3,433m and £343m in FY24 for eps of 10.0p.

Brokers are optimistic and between FY25-27, Barclays forecasts EBITDA to rise to £405m, £444m and £481m for eps of 12.6p, 14.7p and 16.1p, dropping the soon-to-be prospective PE to 10.9 and then just 9.9. Before Covid-19, SSP regularly traded at over 30x. But the shares could be more attractive still this spring when the upcoming IPO of its Indian subsidiary, Travel Food Services (SSP: 51% interest), will provide pricing details and likely point to an attractive "look-through" valuation for the rest of the group.

Founded in 1961 SSP was originally part of support services catering giant Compass but in 2006 was bought by Swedish private equity firm EQT and went on an expansion drive, predominantly in the USA, Asia and Middle East. Today the group operates around 3,000 units in 625 locations spanning a range of outlets including coffee shops, sandwich bars, takeaway restaurants, bars, bakeries, lounges and food retail outlets. As well as its own brands it also licenses in the franchise rights to several household names such as Starbucks, Burger King, Brewdog, WH Smith and Marks & Spencer, a strategy that increases customer footfall and makes it a more attractive proposition to its airport partners. With annual sales of £3.4bn, the company is a classic 800-pound gorilla in the sector alongside AutoGrill with sales: €4.1bn, which is strong in North American airports and Elior (mainly European ones) with sales of €6bn.

Central to SSP's investment proposition is the earnings visibility provided by long-term contracts with the airport or railway owners - between 5-8 years in Europe and 10-16 in USA. The average remaining tenure is six years. But in return SSP must invest in fixtures, fittings and equipment and the past two years has seen a whopping £690m capex, including £110m on new contracts and £180m M&A. However, net debt was a comfortable 1.7x as at FY24 and is forecast to reduce to 1.0x by FY27. Those acquisitions, strengthening its US presence while opening up new markets in Canada, Australia and Middle East, are expected to add c. £215m incremental revenues this year, nicely complementing its secured contract pipeline (i.e. contracts won but not yet commenced), which will add a further £450m as they mobilise. Forecasts therefore look well underpinned.

A key reason airport owners choose SSP is its specialist industry knowledge and well-trained staff with the skills to navigate the unusual challenges in this space. For example, employees must serve customers quickly so they don't miss their flights but demand can also fluctuate dramatically depending on departure / arrival schedules. They also have to operate in space constrained outlets that often lack all the kitchen equipment and must adhere to strict regulations (e.g. no open flames). While labour is the largest cost (30% sales), management has nevertheless introduced efficiency measures, for example menu optimisation, self-order check-outs and order-and-pay at table options and operating margins have improved from 1.4% in FY22 to 6.0% last year while operational gearing from rising turnover is expected to drive it to 7.2% by FY27.

While there's already plenty to be excited about, an additional "wildcard" for investors is the upcoming Indian IPO of Travel Food Services (TFS). This was originally acquired in 2016 for £57.9m and with India being the fastest-growing passenger market between 2009-2019, even beating the US, China and Japan, TFS has grown EBITDA from £8.3m to almost £53m for profit after tax of £28.7m in the year to March '24. The Indian Stock market (Sensex) is riding high, boasting an average PE of almost 23x as at 28 February, so a premium valuation for TFS, say 10x EBITDA, could gain a starting valuation of around £500m or almost 40% of SSPs market cap. *The shares look very attractive at these levels; I am a buyer.* TMI

an existing one and this, alongside long contracts (which I will come to later), act as a high barrier to entry. Even occasional political turmoil hasn't affected proceedings with this "essential infrastructure" considered an asset in getting Government messaging out to the population both in peaceful terms and during turmoil.

Impressive 10-15 year contracts

The beauty of this business is that the MNO customer will sign a 10-15 year contract with the option to extend and these are watertight "take or pay" agreements, so if in theory the MNO wanted to exit they must pay compensation to Helios for the un-used element. In practice, all clients stay with Helios for the contracts' duration, with management approaching customers to renew up to two years before the end. Attrition is therefore very low. Even when a customer is taken over, which is rare (only two M&A events since IPO), there have only been minor contractual tweaks in which Helios offers small cost reductions up front in exchange for extending the life and committing to additional volumes in future. A company presentation shows that the average remaining life of customer contracts is 7.1 years, equivalent to an order book of US$566m!

200-400 new towers a year

If contract visibility is one half of the investment story, the other half is the tantalising prospect of a significant rise in return on invested capital (ROIC). The towers, which are usually 50-70m high, cost around US$125,000 to erect, which covers steels, gated fencing, electronic locks for access, solar panels and fuel tanks with the customer responsible for the antenna and other telecoms equipment.

Helios aims to erect between 200-400 new towers each year but will only commit to the spend on signature of the first or "anchor" tenant. But the name of the game here is to co-locate as many additional tenants as possible, given the incremental costs are de minimis at US$10,000 and pay-back is just six months.

Huge ROIC growth opportunity

Overall ROIC is 12% for the first tenant, ratcheting up to 25% for the second and 34% for the third. A company spokesman told me 47% of towers had one tenant, 27% had two and 26% three or more. Amazingly, in Kinshasa and Dar Es Salaam it has six tenants on certain towers!

Rather like immature self-storage centres (think Lok 'n Store or **Safestore**, 604p) filling up and ratcheting profitability as they age, the same opportunity presents itself for Helios Towers. For its five established markets (2010-2015), the tenancy ratio (i.e. number of customers per tower) has doubled from 1.2x to 2.4x delivering an 18.8% return on invested capital while for new markets (Oman, Malawi, Madagascar and Senegal) it has improved (from 1.2x) but is still only 1.5x with ROIC just 7.2%, which shows there's still plenty of runway up ahead. For the group as a whole, management aims to improve the tenancy ratio from 2.0x to 2.2 by FY26.

Lower depreciation to power eps

Perhaps the only thing that could hurt Helios is a currency collapse in the "soft" African currencies not pegged to the dollar or euro, currently representing around 30% EBITDA. But even here Helios has built-in contractual protection from CPI inflation and fuel inflation escalators. It is also planning to increase cumulative investment in green energy (solar panels, hybrid batteries) from US$30m to US$100m by 2030 to reduce dependence on expensive diesel.

Another tailwind that could propel earnings is last year's change in depreciation policy from writing down the towers over up to 15 years to up to 30 years with the company spokesman pointing out that their useful life is effectively over 40 years. In addition, almost half of its towers (built between 2010-2015) will in any case be fully written down over the next five years and will therefore be "in for free."

Next year's prospective PE just 7.9

Deutsche Bank forecasts maiden EPS of 5.7 cents for FY24 rising to 10.8 cents (8.4p) this year and 15.9 cents (12.3p) in FY26, dropping next year's prospective PE to just 7.9. *I am a buyer.* TMI

Serabi Gold

Sector: AIM, Precious Metals | Share Price: 144p | Epic Code: SRB

Key Data

Address:	Cobham Park Road, The Long Barn, Surrey, KT11 3NE
Telephone:	020 7246 6830
Shares in issue:	75.7m
Market Capitalisation:	£109m
Next Results:	Finals: April

Gold has surged almost exactly US$1,000 / ounce (oz) since the start of 2023 to an all-time high of US$2,909 and many analysts believe it could go higher still. Bloomberg Intelligence predicts gold could reach US$7,000 over the next five years “with the bullish US stock market coming to an end and the Fed lowering interest rates and increasing the money supply which will favour gold.”

One share that is successfully exploiting this opportunity is AIM-listed Serabi Gold, which owns two producing underground gold mines in Brazil. Chief executive Mike Hodgson was in fine form when I met with him over the month, fresh off announcing a 13% increase in gold production to 37,520 oz for 2024 (including a five-year high of 10,022 oz in Q4 alone) and Serabi’s forecast is for 44-47,000 oz this year with analysts pencilling in around 60,000 oz in 2026, which would represent another production record.

Massive upgrades

Powered by gold’s rise, Serabi is enjoying a healthy earnings upgrade cycle; prior to last May Peel Hunt had forecast its turnover, pretax profit and eps to come in at US$78m, US$15.1m and 18.3 cents, respectively, for FY24 but that has since been increased to US$98m, US$31.7m and 36.1 cents. For this year, this is already expected to rise to sales of US$123m, pretax profit of US$48.3m and eps of 54 cents (42p), leaving the shares looking cheap on a prospective enterprise value / EBITDA of just 3x.

History

Serabi Gold listed in 2005 with a single gold mine, the *Palito Complex*, in the Tapajos region in Brazil and with easy financing available thanks to the AIM bubble, it unwisely chased scale that wasn’t there, culminating in a near death experience in 2009. That year, current CEO Hodgson was appointed with founder Bill Clough stepping down.

Aided by US$9m raised from a secondary listing on Canada’s TSX and US$5m investment from the Megeve Investment fund, who were enticed by that second gold boom in the early 2010s, Serabi was able to re-start Palito and it has been running at a steady state of 30-40,000 oz per annum since 2015.

Tapajos a “globally significant mineral province”

The Tapajos region, where Palito is situated, is located within the state of Para, Brazil, which is roughly the size of Portugal (90,000 sq. km) and is the country’s number two region for mining activity with improving infrastructure and development incentives including a low tax rate of 15.25%.

The area was in fact the site of a major gold rush from the late 1970s until the late 1990s which, according to the Brazilian Department of Mineral Production, had up to 30 million oz of artisanal production. Amazingly, some reports suggest Tapajos still contains around 1,000 tonnes of gold ore (placing it amongst the world’s largest) although only 7 million oz in hard rock deposits have been defined.

Palito Complex

Serabi’s Palito complex is a 65,000 ha property and has been explored and defined to a depth of around 300 metres through a combination of underground development and drilling campaigns. Starting out in 2005 with a resource base of 405,000 oz, Palito had cumulatively produced 414,000 oz up to FY23, yet resource replenishment, through airborne geophysics and magnetics, geochemistry and mapping, has meant resources have actually increased to 532,000 oz.

Coringa a game-changer

But this is only half the story. What laid the foundations for the life changing share price gains was that in late 2017, a neighbouring asset became available leading to the acquisition of the *Coringa* gold mine for US$22m. That was funded by an US$8m placing and US$15m investment by private equity firm Greenstone, which is the joint largest shareholder alongside Fratelli, the investment vehicle of the Solari family who also own a large South American retail company. Both parties still hold just over 25% each, with River and Mercantile (2.9%) and Premier Miton (4.2%) also significant shareholders. Hodgson says these shareholders are fully supportive of the decision to remain un-hedged, seeing it as providing maximum upside should the current boom continue.

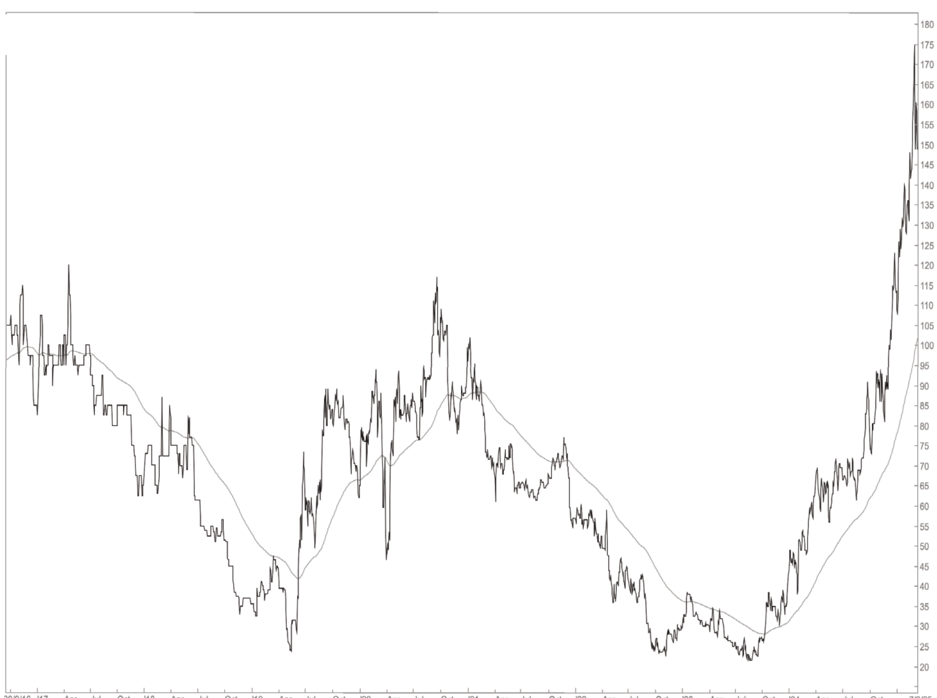
Coringa high grade deposit

As Hodgson notes, this second asset at Coringa is superior to Palito in a number of ways and I think is exciting enough to be able to power this £109m market cap company into something much larger in the years ahead. It’s a high grade, narrow vein deposit - in other words the gold-bearing veins are thin, typically only a few centimetres wide, but contain a relatively high content of gold of around 6-7 grams / tonne, although last October they hit a record 9 grams!

Total resources are 450,000 oz while it commenced production in July 2022. Coringa initially had one underground mine in operation (Serra) but has since opened a second (Meio) and production is quickly ramping up towards 30,000 oz with Hodgson stating that it’s targeting a further rise to 50,000 oz by 2026.

Step increase to 100,000 oz

Coringa has superior economics both in terms of lower cost-per-ounce and also a 3x better conversion of resources into reserves. And having struggled for years when prices were low, Hodgson



Babcock International (BAB), 711p

The shocking White House meeting between President Trump and Ukraine's President Zelensky on 28 February resulted in UK and Europe ratcheting up defence spend as a deterrent to Russian aggression and with rumours of US withdrawal from NATO also doing the rounds, we appear to be heading for a period of late 1930s style uncertainty. Sir Kier Starmer is increasing UK defence spending to 2.7% of GDP with 3% a medium-term target, while EU Commission President Ursula Von Der Leyen has mooted an €800bn European defence fund. With the Ukraine war passing its third anniversary, British defence stocks had already performed strongly but their charts have now gone into orbit with Rolls Royce rising from 90p at the start of 2023 to almost 800p and BAE doubling from 850p to almost 1650p. At the smaller end TMI favourite Cohort has soared from £5 to almost £12 while interestingly, the starting gun has been fired on a potential wave of consolidation with countermeasures specialist **Chemring**, 410p, receiving a bid from US private equity firm Bain Capital, although one wonders whether the Government will now block it citing national security.

If Trump really withdraws resources from NATO, then FTSE-250 rated Babcock, also boasting a bottom-left-top-right chart, could become the football equivalent of our Most Valuable Player. Around 70% of its turnover is derived from the UK, with its two largest divisions, Marine and Nuclear, together accounting for two thirds of operating profit. Last month, Babcock announced it "expects revenues and operating profit to exceed the top end of analysts' expectations." In the light of that, JP Morgan Cazenove upgraded eps by 4% to 48.3p for the year about to end 31 March, rising to 52.5p and 57.4p.

Babcock's largest contract is the maintenance and support of the UK's nuclear submarine fleet, particularly the Vanguard class, which has provided the continuous at sea nuclear deterrent since 1969, as well as the Trafalgar, and Astute classes, through the "Fleet Maritime Support Programme (FMSP)" with the Ministry of Defence (MOD). This is valued at around £3.5 billion and includes operations at the Devonport and Clyde naval bases. Babcock is also commissioned to build new vessels (e.g. the Type 31 frigate) with the "float-off" of the first two ships, HMS Venturer and HMS Active, expected in 2026.

Other business comes from missile tube assemblies, warship support orders and new work through to 2050 to increase the UK's submarine fleet from 11 to 16 vessels; a £6bn-£8bn program for other major naval infrastructure at Devonport and Clyde and up to eight Australian new generation (SSN) nuclear subs through AUKUS worth up to £20bn. Separately, in civil nuclear, Babcock has an opportunity to deliver up to £30bn work through a new fleet of large and modular reactors.

Even after the remarkable rise, the shares stand at a discount to the sector on a prospective PE of 13.5 (eps: 52.5p) falling to 12.4 (57.4p) even though net debt / EBITDA has fallen from 2.5x in FY21 to just 0.6x. *I am a buyer.* TMI

notes how the worm has turned as this asset is largely behind the free cash flow that is forecast to almost triple to US$23.3m this year with net cash expected to balloon from US$11.1m to US$34.3m. Hodgson says this will be put to good use with its exploration budget slated to hit a record US$9m this year and next as the group targets a doubling in its resource base to 2 million oz.

This is expected to provide the platform for the next step increase in production to 100,000 oz per annum by 2028 but I suspect that with several junior gold players having recently been taken over, such as Shanta Gold (by Saturn Resources in late 2023) and Centamin (by AngloGold Ashanti last November in a £1.9bn deal), Serabi's own days of independence could be numbered.

Lower cost mine

Crucially, while Palito's breakeven costs were around US$2,000 / oz, paydirt at Coringa was only US$1,400, making for an average US$1,740 last year. Serabi has enjoyed a huge stroke of luck at Coringa because the original intention was to build a second processing plant (alongside an existing one at Palito) costing US$40m (because the alternative would have meant trucking the ore 200 kms along dirt tracks to be processed at Palito, which would have been uneconomic). However, fortunately for Serabi, Brazil has experienced an agricultural boom for growing soya and the Government has beefed up local infrastructure by building a paved and gravel national highway between the two mines, which Serabi is now carpet-bagging off to shuttle its trucks back and forth.

Ore sorter boosts grades 1.6x

As a result Serabi's only major capex at Coringa has been a new crusher and ore sorter machine (c. US$8m), which separates the gold (a white coloured ore) from the waste granite, which is red. The contrast in colours ensured very low ore loss (just 3%) while the process results in average feed grades increasing by a factor of 1.6x to around 10-11 grams / tonne. Hodgson says further efficiencies are planned in the medium term to reduce the percentage of "fines ore" - that is low-grade, low density ore that can't go into the ore crusher / sorter - from around 35% to just 20%.

Average grades to rise

With this new ore sorter having only been in use a few months, Coringa can look forward to higher average grades and improved output of gold in 2025. Eagle eyed subscribers may, though, have spotted a potential stumbling block up ahead given that when both mines are at full tilt the company will hit capacity constraints of 60,000 oz per annum. As Hodgson notes the obvious short-term solution is to pare back production at Palito to leave more room for the more profitable Coringa ore but longer term (and once its exploration program has delivered another 1m oz) Serabi will build new capacity with 100,000 oz by 2028 a realistic goal.

Scale economies to reduce costs

One potential area of concern has been the increase in average costs per oz from just under US$1,100 / oz in 2019 to around US$1,740 / oz in 2024 as Serabi was not immune to the post Pandemic inflationary pressures that have affected virtually every mining company. Nevertheless, the rising gold price has more than mitigated this issue while Hodgson says the anticipated growth at Coringa is expected to lower costs to the high US$1500s this year.

For the group as a whole, labour is the highest component (43% of total) because the assets are in the middle of nowhere and Serabi has to build accommodation blocks. Labour is also expensive given that Brazilian laws dictate maximum seven hour shifts (two thirds on/ one third off roster) versus 12 hours in Australia. Site costs are 14%, mine operating costs (including consumables such as cyanide) are 13% with maintenance 12% and power (electric + diesel) 10%.

Copper opportunity

The gold story alone should be enough to whet investors' appetites but interestingly there's also speculative appeal through an emerging copper opportunity. Back in May 2023, with the group at risk of losing some exploration licences due to inactivity, it signed an alliance with Brazilian metals giant Vale, which brought in US$5m for new drilling. Half of that has been spent drilling an exciting copper porphyry prospect at Matilda, which found encouraging grades of over 0.2% as well as delineating a shallow mineralised zone with an exploration target range of between 21-81 million tonnes at 0.28%-0.4% copper. While the Vale alliance has now ended and it's still early days, the sharp rise in copper towards all-time highs provides hope that a new partner with deep pockets can be found.

Net cash to balloon

In spite of the recent rise the shares are inexpensive on an EV / EBITDA of around 3x. *With Peel Hunt expecting net cash to balloon to a massive US$136m by 2028, providing additional fuel for exploration as well as potential returns to shareholders, I am a buyer.* TMI

Updates, upgrades and downgrades

The Property Franchise Group (TPFG) 440p
Sector: AIM, Real Estate

TPFG has been one of the few to show relative strength in soggy markets, and helped by a strong year-end update, the shares rose to 440p. Revenue increased 146% to £67.2m, thanks to the transformative acquisitions of Belvoir and GPEA, which added material scale and market reach.

TPFG now manages 3% of the private rental sector with 153,000 (2023: 78,000) rental properties. Its franchise network sold 30,000 properties making it the largest property franchise business in the UK. Lettings managed service fees (MSF) grew 93% to £19m (8% like-for-like) whilst sales increased by 48% to £9.3m (15% underlying).

Meanwhile its financial services (FS) offering has been materially enhanced, delivering over 23,000 mortgages in FY24. FS sales totalled £19.2m (FY'23: £1.5m) with a strong H2 as a result of improved volumes post the BoE base rate reduction, as well as improved productivity of advisers.

A new licensing division has been created post the GPEA deal (Fine & Country and the Guild) with licensees paying a fee to use the brand in return for centralised support including regulatory guidance and marketing. Licensing revenue was £7.2m from just six months contribution, adding useful recurring revenues.

Looking to the current year Singer says the focus will be on both cost and revenue synergies to unlock the value of the combined group, while the strong sales pipeline (+71% to £39.4m) and further expected rate cuts make for a strong outlook. Singer forecasts eps to rise from an expected 28.3p to 35.5p this year, dropping the prospective PE to just 13.1, while it thinks revenue synergies provides eps upgrade potential. Its price target is 532p.

A 2024 Nap at 277p (as Belvoir, which was followed by its all-share take-over by TPFG) and subsequent main write-up last May at 355p the gain is up to 59%. I am running profits.

Reach (RCH) 78.5p
Sector: Media

Reach duly delivered results ahead of expectations with operating profit up 6% to £102.3m in spite of a 4% decline in like-for-like sales. Eps rose 16% to 25.3p. Net debt rose from £10m to just over £14m.

Aided by a strong Q4, digital revenues returned to growth and grew 2.1% to £130m, driven by more resilient and higher yielding data-led revenues (now 45% divisional sales) and a hardening of rates (19% rise in revenues per thousand page views). After a long period of decline, Reach said open market (programmatic) sales have stabilised as has referral traffic, while page views have improved again in Q4. Additionally, e-commerce revenues rose 39% and affiliate sales by 51%.

Interestingly Reach's Mantis platform (brand safety and contextual targeting platform) is now being adopted by other publishers and generating revenues with partnerships including **LBG Media**, 102p, Immediate Media, **National World**, 22.5p, and Netmums in the UK, and Nine in Australia.

Print revenue declined 6% like-for-like with circulation down 3% and advertising 13.5%. Panmure continues to expect cover price increases to mitigate high teens circulation decline volumes.

Its North American expansion has progressed with its titles now reaching 11% of the US online audience.

Encouragingly, operating margins improved by 2% to 19%, helped by management exceeding its 5-6% cost savings target and a further 4-5% reduction is targeted for 2025.

The pension deficit fell to just £34m and is likely to move into surplus in 2025, leaving it well on track to reduce annual deficit payments from 2028.

Panmure forecasts eps of 22.1p this year for a prospective PE of just 3.6. *I am a buyer.*

Plus500 (PLUS) 2746p
Sector: Investment Banking & Brokerage

Plus' pre-flagged final results were strong with KPIs showing both new and active customer numbers up strongly. EBITDA rose 1% to US$342m despite heavy customer acquisition investment in the fourth quarter, while eps rose 13% to 357 cents. The dividend increased almost a third to 222 cents (including a 135 cents special).

New customers increased 30% to 118,010 in FY'24 while active ones increased 9% to almost 255,000. While average revenue per user and average user acquisition cost were similar year on year at US$3,023 and US$1,456, respectively, the decision to target higher quality customers appears vindicated through other metrics. Two stand-out KPIs for PLUS were average deposit per active customer, which continued to climb (+17% year-on-year from US$10,300 to US$12,000) and revenue derived from customers trading for more than three years on the platform, which again increased from 59% in FY23 to 67% in FY24, despite significant onboarding of new customers in the USA into the mix.

Management remains focused on growing its portfolio of regulatory licenses and clearing memberships and 2025 is off to a good start with additional clearing membership for ICE Clear US and a more comprehensive license in the UAE. New products such as knock-out options and other OTC products based on Indices, Equities and ETFs in Japan will also add to growth.

Peel Hunt forecasts eps of 341 cents for last year, rising to 365 cents this year and 400 cents next and notes the attractive EV / EBITDA of 7x. *I am a buyer.*

On the Beach (OTB) 231p
Sector: Travel

OTB's AGM revealed a 10% jump in total transaction volumes (TTV) year to date. Winter 24/25 TTV is said to be up 18% with Summer 25 rising 10% and is tracking significantly ahead of last summer. Encouragingly, TTV for holidays due between March and June has risen 17%, confirming a later booking trend.

With the Ryanair litigation now settled and the two groups' booking systems fully integrated and more efficient, OTB is well-placed to benefit from its expansion into city breaks and Republic of Ireland. The group is now taking bookings to over 70 city destinations, while Republic of Ireland is making good progress following its first marketing campaign in January.

Those two additions have extended its total addressable market from 23m to 48m passengers annually, providing a fantastic opportunity for its scalable online booking platform to exploit and grow profit margins.

EPS forecasts are for between 17.8p-20.8p this year, rising to around 23p next. *I am a buyer.*

Victorian Plumbing (VIC) 90p
Sector: AIM, Retailers

Having previously highlighted improving sales in December, Victorian Plumbing said the better conditions continued in January while high single digit growth is expected in February, representing a major outperformance versus competitors. Furthermore the gross profit growth rate has exceeded revenue growth with the company confirming continuing improvement in gross margin.

The company also confirmed progress in strategic areas including moving the cut off time for next day delivery from midday to 3pm to benefit trade customers; launching a free tile sample offering; and launching a third party digital trade credit offering. Tiles and Décor sales are expected to grow 30% in the first 21 weeks of FY25 with expansion category and trade growth continuing to be prioritised.

Shore Capital's unchanged forecasts are for eps of 6.4p year to September, rising to 7.1p and then 8.9p in FY'27. *Strong hold ahead of interims on 14th May.*

Updates, upgrades and downgrades

Brickability (BRCK) 61p
Sector: AIM, Construction & Materials

Brickability pleasantly surprised with its update for the 10 months ended 31 January.

Over the past four months like-for-like revenues grew 12.3% with growth in all four divisions. The company highlights a continuation of strong trends for the Distribution division (doors, windows, radiators, heating solutions) including high levels of demand for solar PV products. Furthermore Brickability continues to benefit from a supportive regulatory environment for its specialist cladding and fire remediation businesses and Cavendish expects cladding to deliver growth in the next 2-5 years as house builders work through their backlogs.

The bricks and building materials and importing divisions delivered strong revenue in the four months to 31 January but the more competitive pricing environment is now likely to persist into H1 26. Nevertheless, industry brick capacity restraints will underpin a bounce in prices medium term when demand improves.

Cavendish has raised FY25 EBITDA forecasts by £1.7m to £48.7m, albeit shading FY26 from £58m to £52.5m for eps of 8.3p and 8.8p, dropping the prospective PE to 6.9.

A major beneficiary for when those rate cuts finally accelerate (perhaps in the second half?), I am a buyer on dips.

YouGov (YOU) 330p
Sector: AIM, Media

In challenging conditions, YouGov's first half update noted "modest growth on an underlying basis reflecting stabilisation in our core business" with strong headline growth thanks to the CPS acquisition. In spite of protracted sales cycles, Data Products returned to low-single-digit-growth owing to stable renewal rates and good performances within media agencies. Research also saw low-single-digit growth with momentum in the technology sector and academic institutions offset by weakness in gaming and declines in government spending during elections.

The CEO is standing down to be replaced by co-founder Stephan Shakespeare on an interim basis, while the cost optimisation program plan remains on track, which will cut costs by £20m, of which 70% will be achieved in FY'25.

Berenberg has lowered FY'25 operating profit forecasts by 4% for new eps of 32.6p, rising to 40p in FY'26 and then 46.4p in FY'27. *I'm running out of patience with YouGov and with its large US market now at serious risk of a Trump Slump, I am setting a stoploss of 330p.*

JTC (JTC) 970p
Sector: Brokerage Services

The shares have been resilient during the sell-off, buoyed by its fast start to the "Cosmos era" period. The update for the 12 months ended December showed it's achieved management's guidance of 10%+ net organic revenue growth pa while EBITDA margins sit within the guidance range of 33-38% and cash conversion is anticipated to be at the top end of the 85%-90% range.

A year of strong progress saw five acquisitions completed while the 16 September Citi Trust deal is set to complete by the end of Q2 25. As a result it's well-placed to meet its Cosmos era target of doubling 2023 EBITDA within four years.

Full year 2024 was a record year for new business wins with year-on-year growth of almost 16% to £35.7m with the US a key driver, a trend expected to continue under the (allegedly) pro-business Trump era. Leverage will end the period at the bottom of the guidance range of 1.5x-2.0 net debt / EBITDA excluding the Citi transaction reflecting the strong cash generation.

The pipeline for M&A is well-developed, too. *I am a strong holder ahead of results on 8 April.*

Pets at Home (PETS) 233p
Sector: Retailers

After a difficult spell shares in Pets at Home have finally bottomed with a useful bounce after the company maintained full year guidance in Q3 (after an earlier cut in November), which Panmure Liberum ascribed to "strong inventory sell through and gross margin management". Within Retail like-for-like sales fell 2.8%, put down to a more challenging consumer backdrop and particularly weak footfall from October. More positively its digital performance has improved with strong growth in subscriptions while its optimisation of the distribution centre network is complete.

The highlight was the Vets division, which increased like-for-like sales almost 20% with vet practices seeing double digit underlying growth, supported by a boost in average transaction values.

Panmure's EBIT forecast is for virtually unchanged £146m rising to £148.4m for the year starting 1 April for eps of 17.8p and 18.4p, respectively. Excluding leases it's expected to have net cash by FY26, meaning the PE rating of 13.1 is still relatively cheap. *I am a strong holder.*

Franchise Brands (FRAN) 141p
Sector: AIM, Industrial Services

The shares have been weak in the aftermath of its full year update, which said FY'24 adjusted EBITDA is expected to be very marginally below consensus expectations. Stifel has pared EBITDA forecasts by 1.5% to £35m. Tempering that, net debt was £65.1m, down from almost £75m the year before and £1m better than expected.

Its largest business, Pirtek, grew system sales to record levels with like-for-like sales growth of 2% in UK and 4% in Europe. This reflects good demand for essential reactive work in most sectors despite continued subdued demand for project work and discretionary spending, as well as weakness in UK construction and plant hire and soft manufacturing in Germany.

Filta North America performed strongly with system sales up 12% even after including some weakness in used cooking oil sales, which fell 11% due to falling prices.

Following the appointment of new CEO Peter Molloy, a new initiative "One Franchise Brands" was launched focusing on integrating the group into one business to create an efficient overhead structure including operating on a secure and effective IT platform and to enhance sales through cross-selling etc. That direction was signposted by CEO Stephen Hemsley when I met him last spring, so now he has to deliver.

Stifel has a 300p price target, but notes that should management achieve their medium term aims of £60m EBITDA (double FY'23) and net cash, it could warrant a 13-15x EV / EBITDA multiple and up to £900m market cap, which is more than 3x today's levels. *That's why I'm sticking with it. I'm a strong holder.*

Ultimate Products (ULTP) 78.5p
Sector: Household Goods

Tough trading conditions meant Ultimate Products saw sales reduce 6% for its first six months.

The UK, its home market, remains "subdued due to weaker consumer demand for general merchandise" with sales down 14%, although this was offset by international sales up 12%. Apparently, it's at the wrong end of the unwinding of the air fryer bubble with sales of that product down 46% to £5.2m. On top of these demand pressures the group faced elevated freight costs in H1, albeit it has improved so far in H2.

Ultimate is mitigating this softness with ongoing productivity investments such as robotic process automation and artificial intelligence. Shore Capital says this supported unchanged operational expenses last year and will mitigate NIC increases and rising environmental regulatory costs.

Shore has downgraded its EBITDA forecast to £14.3m for new eps of 9.5p, rising to 12.1p in the year starting August. *Low gearing (net debt / EBITDA c. 1x) and a 6% dividend yield (4.7p) are good reasons to hold on.*

At the time of going to press, the editorial team held the following shares mentioned in this issue: On the Beach, SSP and Reach

TMI Trader Portfolio 2

Whatever you think about Donald Trump, two new trends are crystallising into focus. First, a closely watched indicator (the Federal Reserve of Atlanta GDPNow) has the US economy declining at a rate of minus 2.8%, the greatest decline, excluding the Pandemic, since the dark days of the GFC, fanning fears of a "Trumpcession" in North America. Second, the huge re-armament commitments proposed by British and European Governments has spiked bond yields as markets fret over the funding. Not surprisingly, share prices have been roiled so the +1.6% gain by TP2 versus a -3.6% loss for small caps is a decent performance.

In terms of individual performances, Babcock soared to new high of 753p as investors anticipate improving Government defence spend while the EU has pledged an €800bn defence fund with Germany alone pledging €500bn a year for new infrastructure. Such stimuli could improve demand for minerals like lime (used to make steel) and may explain SigmaRoc's welcome spike to 90p.

Reach was also ahead of expectations and looks cheap on a PE of 3.6 with its pension deficit falling again, while Hunting now has cash of £105m, providing even more firepower for M&A. The Property Franchise Group showed good progress on acquisition synergies and a strong sales pipeline.

I thought YouGov would recover after the co-founder returned as CEO but following renewed weakness and being overweight in the waning US economy, I'm introducing a stop-loss of 330p. Although TP2 is cash constrained right now, Playtech's disposal of Snaitech (which will trigger a large special dividend) is due to complete in Q2, paving the way for new additions.

This time I've led with Helios Towers, a new name to *TMI*, which rents out telecom towers (that provide the bandwidth) to mobile network operators across Africa. This is a lucrative "mission critical" service provided to blue chips such as Vodafone and Orange on very long-term contracts. Given the tailwinds provided by the immature African market for voice and data usage, one would ordinarily expect the shares to be flying right now. That you can still buy them on an EV / EBITDA of 7.2x vs a sector average 18x is largely down to historic concerns over borrowings but it has reached a free cash flow inflexion point, which will allow rapid debt pay-down. Rather like last month's write-up, Airtel Africa, I mark Helios as an attractive special situation and completely devoid from the Donald Trump shenanigans.

The same can be said for my other write-up, Serabi Gold (page 4), which owns two gold mines in Brazil and is expanding production (and reducing costs) at a time when prices have surged towards US$3,000 / oz. Serabi is fully funded for record exploration spend over the next two years, which could underpin plans for a step increase in output to 100,000 oz by 2028.

PERFORMANCE TABLE

	Current Value	Change on One Month	Change Since Start
TMI Trader Portfolio 2		+1.6%	+21.9%
FTSE-100	8680	-0.2%	+47.0%
FTSE-Small Cap	6588	-3.6%	+10.4%

TMI TRADER PORTFOLIO 1

Starting Capital (25.3.02):	£100,000
Termination Value (11.12.20):	£618,710
Portfolio gain:	+518.7%
FTSE-100 gain in period:	+24.7%
FTSE-All Share gain:	+44.6%

EPIC	Quantity	Description	Date Bought	Acquisition price (p)	Book Cost (£)	Current Price (p)	Current Value (£)	Change (%)
RCH	3,600	Reach	21/6/21	263	9,560	78.5	2826	-70
SRC	11,000	SigmaRoc	16/3/22	83	9,175	91	10,010	+9
BAB	2,800	Babcock	14/4/22	323	9,134	711	19,908	+118
HAT	2,600	H&T	7/7/22	361	9,431	384	9,984	+6
PTEC	2,400	Playtech	26/9/22	378	9,162	731	17,544	+91
LUCE	7,500	Luceco	2/6/23	123	9,316	139.5	10,463	+12
HSW	7,250	Hostelworld	20/9/23	126	9,226	127	9,208	0
HTG	3,300	Hunting	11/1/24	277	9,232	295.5	9,752	+6
TPFG	2,750	Property Franchise Group	22/4/24	348	9,615	440	12,100	+26
FRAN	5,200	Franchise Brands	22/4/24	183	9,561	142	7,384	-23
YOU	1,125	YouGov	20/5/24	830	9,383	330	3,713	-60
TEP	525	Telecom Plus	17/6/24	1868	9,901	1704	8,946	-10
						Stock value	£121,836	
						Cash	£110	
						Total fund value	£121,946	

* Part profits taken + Acquisition price adjusted for special dividend

Starting capital £100,000 (December 2020)

Current holdings in the portfolio are valued at mid-prices and include dealing commission

The Momentum Investor is published 12 times a year. It reviews the market for companies whose earnings, sales or stock prices are rising. We place less emphasis on price earnings ratios and more on the search for relative strength and quality. The latter can include superior management, product or a key franchise. Our aim is to help you buy companies that deliver positive earnings surprises and see upward earnings estimate revisions, and sell those with negative surprises and downward revisions. Quite often a previous tip is again rated a buy. This normally arises where subsequent good news justifies buying at the higher price. Selling, though, is the essential second half of any successful investment deal. TMI's philosophy is not to sell a stock just because it is "expensive," but to only advise selling if the momentum breaks, or the fundamentals deteriorate. Where appropriate, we will suggest levels, to protect gains and minimise losses.

• *Unless otherwise stated, share prices quoted are correct as at 7/3/25*

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