Sector Review

Value Investing

02 July 2019

Where's the Value?

Warren Buffett once said that as an investor, it is wise to be 'fearful when others are greedy and greedy when others are fearful'. Fear is not in short supply right now.

Many investment experts believe equity markets, and the UK in particular, are littered with very attractive opportunities, made more so by the constant talking down of stock market prospects.

Undervalued stocks are those stocks that are trading at a price which is assumed to be below its intrinsic value, although how one determines that is another discussion within itself. Some investors favour a strategy of selecting undervalued stocks as they feel they offer a margin of safety but the late Benjamin Graham, widely acknowledged as the father of value investing, and his apprentice Warren Buffet always preferred to buy undervalued stocks in and of themselves.

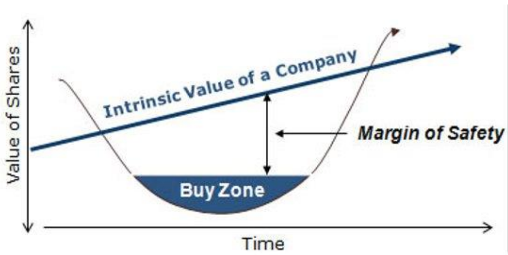
Investors often assume that the cheap stocks are undervalued stocks, but both concepts are very different. The price of the stock and investment ratios cannot be used as a benchmark to determine that a share is undervalued or not, particularly when these multiples are based on market expectations.

In simple terms a value stock is a stock which is considered cheap relative to its intrinsic market cap. Therefore, value investing is the skill of buying stocks which trade at a significant discount to their intrinsic value. We see the intrinsic value of a company's stock as the price one might reasonably expect to pay for the company if you were to buy it outright.

Value investors tend to look for companies on cheap valuation metrics, typically low multiples of their profits or assets, often following an event driven fall in share price, which may not be justified over the longer term. This approach requires a contrarian mindset and a long-term investment horizon. Over the last 100 years a value investment strategy has a consistent history of outperforming index returns across multiple equity markets.

Value entry point

Source: http://www.assignmentpoint.com/business/finance/value-investing.html



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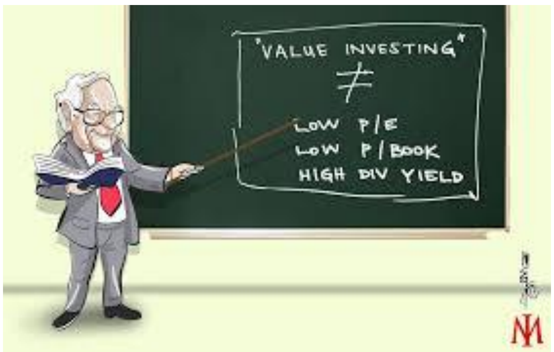

Source: http://mastersinvest.com/newblog/2017/2/19/the-buffett-series-what-is-value-investing

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What is a Value stock?

There are different reasons as to why a stock may be trading at a discount, but it is often the result of a short-term profit disappointment/warning which has resulted in a substantial share price fall. Industry specific events can include negative news on trial/testing delays in the biotech/pharma industry, dry wells/holes in the natural resources sector, or legislative drivers beyond a Company's control in almost any industry. These disappointments can create strong emotional reaction in the shareholders who decide to sell fearing further negative developments and this is where value investors have the potential to see an attractive entry point. Their strategy is that most business is long term in nature and short-term problems don't have a greater impact on the business. There is also some evidence to suggest that most company profits are 'mean reverting' over time, meaning that profit warnings tend to bounce back and strong profit growth tends to slow. We would say this becomes more relevant with size, but well-run smaller companies have a better chance of outperforming their peers over a longer period.

Source: https://investingengineer.com/undervalued-stocks-to-buy-september-2017/

A lot of value investing seeks to exploit the irrational behaviour of emotional investors who overreact to news and promotion rather than calmly analysing the numbers. Emotion is a constant feature of investment markets over time and whilst the companies available to investors change over time, the human nature of investors does not seem to. Fear and greed remain ever present and frequently lead to poor investment decisions based on perception and emotion rather than reality. Periodically, these mispricing's can become extreme (the tech bubble of the 1990s or, conversely, the great depression of the 1930s or even today in blockchain or cannabis), however, they exist to a greater or lesser extent in most markets. This creates an opportunity for dispassionate, long term value investors. Though this concept seems simple, sensible and, hopefully, appealing, it is much easier to say than do in practice.

How to determine if it is undervalued?

Value investors mainly use some of the below quantitative criteria to determine whether the stock is undervalued or not:

Price-to-Earnings Ratio – By using this ratio, we can compare the price of a stock to its earnings and by doing this investor can form as view as to whether the stock is undervalued or not. For the calculation of the P/E ratio, we divide the market price of a share with EPS (earning per share) for the past 12 months. For example, if a share is trading at $50 and its EPS for the year were $5, then the P/E will be 10. This simply shows how much investors are willing to pay per dollars in earnings. Usually, a low P/E ratio indicates the stock is undervalued. For example, a P/E ratio of 15 is much better than a P/E ratio of 35. The lower the P/E the more value there is essentially in the company. However, this needs to be viewed within the context of its peer group, risks to market forecasts.

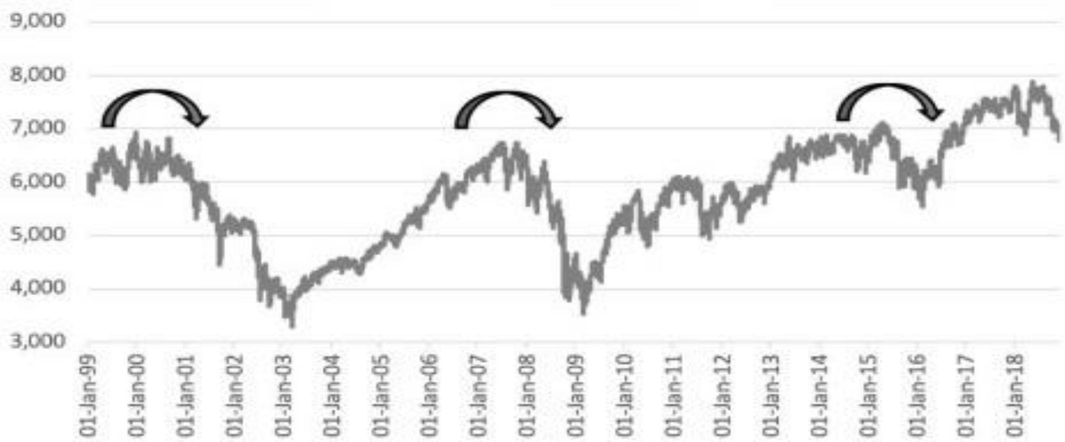
PEG Ratio – PEG ratio means price-to-earnings growth ratio. In this, we divide the price to its earnings by expected annual EPS growth which will provide another ratio that is used to determine whether the stock is undervalued or not. The PEG ratio compared to the simple P/E ratio is in our view a fairer comparison because of its accounting for future growth. Typically, a PEG below 1 is considered good value with respect to the next period's growth and above 1 is considered expensive.

Book Value per share – Book value is also a common ratio which is used to determine whether a stock is undervalued or not. We can get a book value by deducting all liabilities with all assets, which is divided by the number of shares outstanding. In this financial ration, investor compare the book value per share with the stock price. A low price/book value suggests some downside protection, although we would be more sceptical where intangible assets such as goodwill form a larger party of the company's net assets.

Have we missed the value?

Technical analysts, who look for signals from charts and market price action, may well be sceptical, especially if they are adherents to the old saying that 'market tops are a process, while market bottoms are an event'. This can be seen from the chart below from a leading index of the UK's largest quoted companies.

The three tops that are clearly visible, in 1999, 2007 and 2015, were all preceded by a series of minor peaks, with each upward move less convincing before the last, as dip-buyers were lured to what proved to be their doom. Chartists may see worrying echoes of that pattern now. By contrast, the second half of the adage rests upon how the bottoms of 2003, 2009 and 2016 were sudden as the market moved into recovery mode very quickly.



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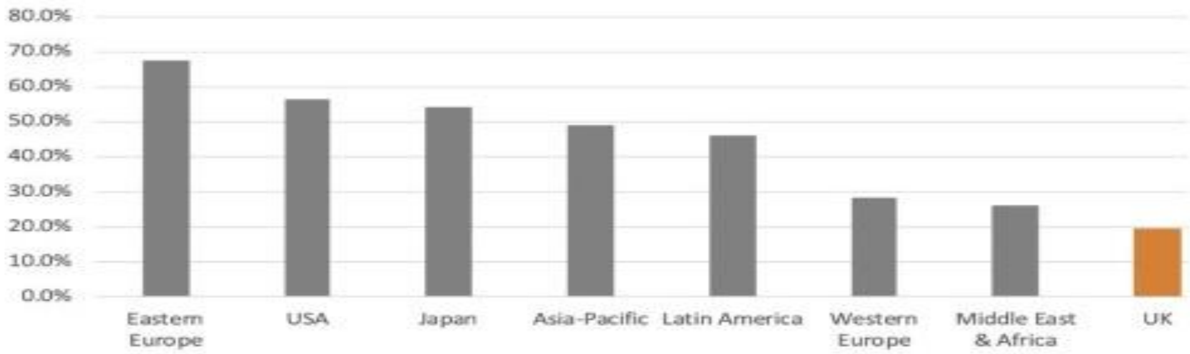
However, Investors who prefer to focus on fundamentals such as profit, cash flow, dividend yield and valuation may take a different view, especially if they have a long-term time horizon and can sit out what could prove to be further Brexit-related volatility in UK equities. They may argue that UK stocks are cheap, because of the gloom which currently surrounds the Brexit process and Sino-US trade relations.

Warren Buffett summed it up perfectly: 'The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It is optimism that is the enemy of the rational investor.' And indeed, only last month Mr. Buffet gave his opinion on the Brexit process: "It doesn't destroy my appetite in the least for making a very large acquisition in the UK."

There does not look to be too much optimism surrounding the UK economy now, or its stock market, which has been the worst performer (in sterling, total-return terms) amongst the geographies listed below since 23 June 2016, when the British electorate voted to leave the European Union until the end of December 2018.



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Undervalued Companies in the UK

The scope of this report seeks to consider UK listed companies with market capitalisations of £200m or less and PE multiples of less than 10. We have highlighted those which we think are worthy of further consideration for investors. The graph shows their five-year share price performance with red signifying a fall in share price over that period and green indicating an increase. Financial numbers and ratios sourced from www.marketscreener.com on 16 June 2019.

1pm (LON: OPM) 43.1p, market cap: £37.8m

Year-end May 18 (£m)	Last reported	Fwd consensus
Revenue	30	32.8
EBITDA	8.59	10.1
EPS	6.46p	8.09p
PE	n/a	5.47x

Source: https://www.yahoofinance.com

1pm plc, together with its subsidiaries, provides financial products and services to consumers and businesses in the United Kingdom. It offers lease financial products and services, such as vehicle finance brokering, secured loans, asset finance, invoice finance, unsecured loans, hire purchase, bridging and buy-to-let mortgages, as well as factoring services. With revenues of 30m and a PE of 5.47x compared to peers of 14.05x, **1pm Is attractively valued and the recent interim results showed strong trading momentum from continued organic growth plus record half-year deal origination, revenues and profits.**

Alumasc (LON: ALU) 107.4p, market cap: £38.6m

Year-end Jun 18 (£m)	Last reported	Fwd consensus
Revenue	98.4	92.9
EBITDA	8.31	8.60
EPS	11.9p	17.1p
PE	11.3x	6.49x

Source: https://www.yahoofinance.com

The Alumasc Group plc, together with its subsidiaries, manufactures and sells building products, systems, and solutions in the United Kingdom, Europe, North America, the Middle East, the Far East, and internationally. The company offers solar shading and architectural screening products; balcony and balustrading systems; premium waterproofing solutions for flat roofs, including green roofs, blu-roofs, and roofing support services; exterior wall insulation and more. With an expected PEG ratio of -2.7x this suggests **a mispricing by the market with regard to growing expected levels of earnings growth.**

AnimalCare (LON: ANCR) 165p, market cap: £99m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	72.5	73.5
EBITDA	11.8	12.9
EPS	0.10p	0.12p
PE	n/a	9.1x

Source: https://www.yahoofinance.com

Animalcare Group plc, an animal health company, that develops, distributes, and sells licensed veterinary pharmaceuticals and identification products and services for the companion animal veterinary markets in the United Kingdom. It operates in two segments, Pharmaceuticals and Wholesale. AnimalCare was hit by the loss in confidence in Pharma in 2017 with underwhelming results from GSK. However, a forward P/E multiple of 9.1 times suggests AnimalCare is undervalued relative to its estimated growth trajectory. **Animalcare offers an attractive dividend yield and in October 2018, Jenny Winter, formerly of AstraZeneca, appointed Chief Executive Officer in October 2018.**

Belvoir Lettings (LON: BLV) 118.5p, market cap: £41m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	13.7	19.0
EBITDA	n/a	n/a
EPS	11.8p	10.7p
PE	7.50x	11.0x
PEG	1.7x	

Source: https://www.yahoofinance.com

Belvoir Lettings plc, together with its subsidiaries, engages in selling, supporting, and training residential property franchises in the United Kingdom. The company operates the franchised network of high street residential lettings and as estate agents with approximately 300 outlets primarily under the Newton Fallowell, Goodchilds, and Northwood brands. It also provides mortgage, insurance, and other financial services. In their RNS for Q1 results on 16th May it stated "**Trading during the first quarter of the current financial year has been robust.**"

Connect Group (LON: CNCT) 38.2p, market cap: £94.4m

Year-end Aug 18 (£m)	Last reported	Fwd consensus
Revenue	1,534	1,473
EBITDA	45.8	41.3
EPS	-15.5p	8.40p
PE	-1.99x	4.54x

Source: https://www.yahoofinance.com

Connect Group PLC engages in the distribution of newspapers, magazines, and books products in the United Kingdom and internationally. The News & Media: News Distribution segment distributes newspapers and magazines to 27,000 retailers from 39 distribution centres across England and Wales. The News & Media: Media segment supplies newspapers and magazines to airlines, as well as provides inflight services. The Mixed Freight segment engages in the next day B2B delivery of mixed freight consignments to small and medium-sized enterprises. Connect Group also provides click and collect services for online and high street retailers. **With a decline in revenue figures since 2017 and a difficult print media market, one can understand investor concerns.** However as per the £130m five-year contract win announced in April, "together with other recently announced contract awards, Smiths News has now renewed agreements representing 98% of its magazine sales and 65% of total sales revenues."

Circle Property (LON: CRC) 208p, market cap: £58.8m

Year-end Mar 18 (£m)	Last reported	Fwd consensus
Revenue	6.21	7.03
EBITDA	n/a	n/a
EPS	51.3p	61.1p
PE	3.04x	3.34x
PEG	0.08x	

Source: https://www.yahoofinance.com

Circle Property's strategy is to identify under-utilised buildings and rejuvenate them to boost the underlying value and rental income. The sweet spot is properties worth between £5m and £15m or that are too small for institutional funds and too large for most private investors. About 94% of the portfolio are regional offices, a property sub-sector that was the UK's second-best performer in 2018, with capital returns of more than 5%. There is a minimum total return target of 12% on acquisitions and 20% on development projects. Since its IPO in February 2016, the EPRA (net assets on the balance sheet excluding the effects of hedges, debt adjustments associated with the hedges and deferred taxation) **NAV has increased from £43.2m to £77.9m as at September 2018 without raising any additional equity capital. The shares trade at a significant discount to this figure.**

Findel (LON: FDL) 200.95p, market cap: £166m

Year-end Mar 18 (£m)	Last reported	Fwd consensus
Revenue	479	508
EBITDA	46.4	50.5
EPS	22.7p	23.8p
PE	9.7x	7.90x
PEG	0.49x	

Source: https://www.yahoofinance.com

Findel plc supplies general merchandise to the home and education sectors in the United Kingdom, Europe, Asia, and internationally. It operates through Express Gifts and Education segments. The Express Gifts segment engages in the sale of various products covering leisurewear, electrical, household, textile, bedding, furniture, nursery products, gifts, and greeting cards through online and through catalogue in the United Kingdom. The Education segment supplies educational resources to schools, nurseries, and other educational establishments under Findel Education brand. With a shrugged off takeover bid from Sports Direct and impressive expected revenues **it is looking positive for next year.**

Gattaca (LON: GATC) 149.08p, market cap: £48.7m

Year-end Jul 18 (£m)	Last reported	Fwd consensus
Revenue	668	71.2
EBITDA	n/a	14.2
EPS	-85.3p	n/ap
PE	-1.47x	5.1x

Source: https://www.yahoofinance.com

Gattaca plc, a human capital resources company, provides contract and permanent recruitment services in the private and public sectors. It operates through three segments: UK Engineering, UK Technology, and International. The company offers permanent, fixed term, temporary, contractor, and interim recruitment; contingent recruitment; preferred supplier lists and frameworks; and vacancy and campaign recruitment services. It also provides flexible, permanent, and total workforce solutions; and professional outsourced engineering and technology support solutions, including blank paper design and reverse engineering, and IT desktop migration solutions. **Gattaca has previously disappointed the market but debt is coming down quickly due to strong cash generation and with a new captain at the helm this is one we continue to follow with interest.**

H&T Group (LON: HAT) 324.55p, market cap: 122.77m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	143	142
EBITDA	16.8	16.7
EPS	29.35p	28.40p
PE	10.27x	11.00x
PEG	-2.01x	

Source: https://www.yahoofinance.com

H&T Group plc primarily provides pawnbroking services in the United Kingdom. The company operates in six segments: Pawnbroking, Gold Purchasing, Retail, Pawnbroking Scrap, Personal Loans, and Other Services. It also offers gold purchasing, jewellery retail, cheque cashing, unsecured lending, buyback, foreign exchange currency, and money transfer services. The company provides its products and services online and in-store. **With a 61% rise in the last 5 years and with continued steady growth it seems this stock could go from strength to strength.**

Lekoil (LON: LEK) 4.78p, market cap: £26.4m

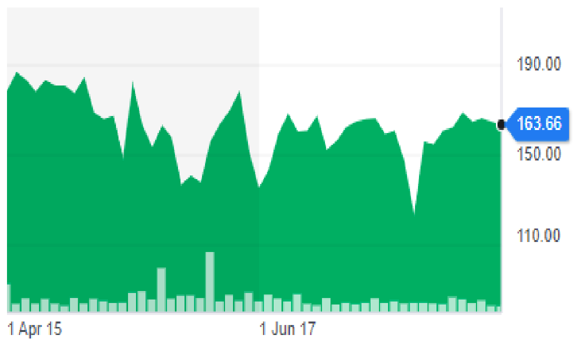
Year-end Dec 18 ($m)	Last reported	Fwd consensus
Revenue	30.8	59.8
EBITDA	19.7	36.9
EPS	0.01c	0.01c
PE	21.9x	6.16x
PEG	0.01x	

Source: https://www.yahoofinance.com

Lekoil Limited explores, develops, and produces petroleum oil and natural gas in Nigeria, Namibia, Cayman, and internationally. The company owns a 40% interest in the Otakikpo marginal field located in the south-eastern part of the Niger Delta; and a 40% interest in the OPL 310 block located in the Upper Cretaceous fairway that runs along the West African Transform Margin. It also holds a 62% interest in the OPL 325 located in the Dahomey Basin; and a 77.5% interest in the Namibia Blocks 2514B located. It appears Lekoil is another victim of current poor Oil and Gas investor sentiment, but **remains a revenue generating company with added exploration activity, trading on a modest forward PE of 6.16x**.

Marshall Motor Holdings (LON: MMH) 163.66p, market cap: £128m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	2,187	2,200
EBITDA	41.4	39.3
EPS	18.1p	23.7p
PE	8.56x	7.03x
PEG	-0.12x	



Source: https://www.yahoofinance.com

Marshall Motor Holdings Plc, together with its subsidiaries, engages in retailing passenger cars and commercial vehicles in the United Kingdom. It sells new and used vehicles; and provides after sales services, such as servicing, body shop repairs, and parts sales. Whilst the car market is challenging Marshall is outperforming the market and has increased its full year dividend by 33% to 8.54p. **It is**

maybe undervalued because of the specific market it is in, but growth is predicted and therefore outlook is bright.

McBride (LON: MCB) 84p, market cap: £153m

Year-end June 18 (£m)	Last reported	Fwd consensus
Revenue	690	729
EBITDA	56.8	54.5
EPS	1.90p	9.8p
PE	70.2x	8.66x
PEG	-0.69x	

Source: https://www.yahoofinance.com

McBride plc, together with its subsidiaries, manufactures and sells private label household and personal care products to retailers in the United Kingdom, other regions in Europe, and Asia. The company offers various household products, mainly within the personal care and laundry section. McBride looks like another casualty from the growing concern in the retail market, though it is possible **it will benefit from down-trading from branded products and a planned expansion into Asia.**

MTI Wireless Edge (LON: MWE) 23.11p, market cap: £20.3m

Year-end Dec 18 ($m)	Last reported	Fwd consensus
Revenue	35.5	39.4
EBITDA	3.51	4.34
EPS	0.03c	2.56c
PE	11.3x	9.0x
PEG	0.59x	

Source: https://www.yahoofinance.com

M.T.I Wireless Edge Ltd. designs, develops, manufactures, and markets antennas and accessories for the commercial and military applications. It provides sector, directional, and omni directional antennas for various broad and narrow band wireless applications; and train, vehicular, and indoor and DAS antennas, as well as mounting kits and integrated enclosures. The company also offers broadband, tactical, and specialised communications antennas and accessories. Consensus forecasts are looking for revenue growth of over 10% this year. **With a strong cash position and undemanding earnings multiple MTI may be one to put on the watch list. Q1 saw revenue growth of 16% to $9.1m.**

Norcros (LON: NXR) 195.25p, market cap: £157m

Year-end Mar 18 (£m)	Last reported	Fwd consensus
Revenue	300	331
EBITDA	33.8	41.6
EPS	14.1p	26p
PE	13.4x	7.49x
PEG	0.14x	

Source: https://www.yahoofinance.com

Norcros plc, together with its subsidiaries, engages in the development, manufacture, and marketing of bathroom and kitchen products in the United Kingdom and South Africa. In the past couple of years, NXR has ramped up its bottom line by over 100%, with its latest earnings level surpassing its average level over the last five years. In addition to beating its historical values, NXR also outperformed its industry, which delivered a decline of -1.3%. **This paints a buoyant picture for the company which the market does not seem to be pricing in.**

Northern Bear (LON: NTBR) 60p, market cap: £11.11m

Year-end Mar 18 (£m)	Last reported	Fwd consensus
Revenue	53.573	n/a
EBITDA	3.82	n/a
EPS	11.80p	n/a
PE	5.08x	n/a
PEG	0.03x	

Source: https://www.yahoofinance.com

Northern Bear PLC, together with its subsidiaries, provides building and support services to local authorities, housing associations, NHS trusts, universities, construction companies, and national house builders in Northern England. It operates through Roofing Activities, Materials Handling Activities, and Building Services Activities segments. **There is no forward consensus, but the stock looks cheap on a current PE ratio.**

Nostrum Oil & Gas (LON: NOG) 60.8p, market cap: £145m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	390	371
EBITDA	231	231
EPS	-0.64p	2.66p
PE	-2.05x	0.29x

Source: https://www.yahoofinance.com

Nostrum Oil & Gas PLC, an independent oil and gas exploration company, engages in the exploration, development, and production of oil and gas in the pre-Caspian Basin. The company discovers and develops oil and gas reserves, as well as produces and sells crude oil, stabilised condensate, liquefied petroleum gas, and dry gas. Its principal producing asset is 100% owned Chinarevskoye field located in North-western Kazakhstan. **It would appear the market is applying something of a regional discount to Nostrum,** which could still enjoy further additions to reserves and production from ongoing drilling campaigns.

Pan African Resources (LON: PAF) 9.71p, market cap: £187m

Year-end Jun 18 (£m)	Last reported	Fwd consensus
Revenue	109	164
EBITDA	24.2	65
EPS	-5.15p	1.19p
PE	-1.38x	7.76x

Source: https://www.yahoofinance.com

Pan African Resources PLC engages in the exploration of precious metals in South Africa and operates through its Barberton Mines, Evander Mines, Corporate, and Funding Company segments. The company primarily explores gold ores, platinum-group elements, and coal. Its principal property is the Barberton gold project that consists of three mines. There are mixed analyst reviews on Pan African but put into a consensus of recommendations the outlook looks good. The market is not valuing the much lower cost (and lower operating risk) ounces from Elikhulu one of its producing locations. With the plant ramped up for stronger production in the second half, **FY19E looks promising with consensus forecasts suggesting a swing to profitability at the EPS level.**

Petards* (LON: PEG) 28p, market cap: £16m

Year-end Dec 19 (£m)	Last reported	Fwd consensus
Revenue	20.0	19.7
EBITDA	2.0	2.23
EPS	1.95p	n/a
PE	13.6x	10.4x
PEG	-0.32x	

Source: https://www.yahoofinance.com

Petards Group plc, develops, supplies, and maintains technologies in advanced security, surveillance, and ruggedised electronic applications in the United Kingdom, Continental Europe, and internationally. It offers rail technology solutions, such as eyeTrain (which now feature on four of the world's major train builders' – Bombardier, Hitachi, Siemens and Stadler – platforms), a solution for digital on-train surveillance; and RTS, a solution that provides safety and efficiency of railways with crucial resource, asset, safety, and failure management software, as well as consultancy services. The company also provides traffic technologies, performing well in 2018, including entering into two framework agreements with UK police forces. "**With 2019 order coverage of £14.6 million, which includes revenue to April, and forecast levels of transactional business for the remainder of the year being in line with the board's expectations, management's focus continues on building on the current order book for 2020/21.**"

Ramsdens (LON: RFX) 167.50p, market cap: £51.5m

Year-end Mar 18 (£m)	Last reported	Fwd consensus
Revenue	46.78	51.44
EBITDA	n/a	n/a
EPS	16.70p	18.93p
PE	10.9x	9.6x
PEG	4.45x	

Source: https://www.yahoofinance.com

Ramsdens Holdings PLC provides various financial services in the United Kingdom. It operates through four segments: Foreign Currency Exchange, Pawnbroking Loans, Precious Metals Buying, and Jewellery Retail. The company offers foreign currency exchange, and pawnbroking and related financial services. It also engages in the sale and purchase of precious metals; and retail of new and pre-owned jewellery.

RFX delivered a bottom-line expansion of 34% in the prior year, with its most recent earnings level surpassing its average level over the last five years. **There can be few sub 10x PE stocks achieving the same level of earnings growth, in our opinion.**

SigmaRoc (LON: SRC) 44.2p, market cap: £78m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	41.2	61.6
EBITDA	9.82	12.3
EPS	2.41p	n/a
PE	10.2x	11.0x
PEG	0.03x	

Source: https://www.yahoofinance.com

SigmaRoc plc invests in and/or acquires projects in the construction materials sector in the United Kingdom, Guernsey, and Jersey. It also produces aggregates and pre-cast concrete, as well as supplies value-added construction materials; and provides shipping logistics, road contracting, and waste recycling services. SRC is an attractive stock for growth-seeking investors, with an expected earnings growth of 24% in the upcoming year. This growth in the bottom-line is bolstered by an impressive top-line expansion of 87% over the same period, which is a sustainable driver of high-quality earnings, as opposed to pure cost-cutting activities. **Also, relative to the rest of its peers which we have looked at, with similar levels of earnings, SRC's share price is trading below the group's average.**

Telford Homes (LON: TEF) 292.50p, market cap: £95m

Year-end Mar 18 (£m)	Last reported	Fwd consensus
Revenue	316	358
EBITDA	48.3	47.1
EPS	49.4p	46.4p
PE	8.22x	6.53x
PEG	-0.68x	

Source: https://www.yahoofinance.com

Telford Homes Plc engages in the housebuilding and property development businesses in the United Kingdom. It is believed that Telford Homes is under-priced due to the 'unfavourable outlook on the speculative property investor' as sale of homes over £600,000 become "more challenging".

Nonetheless the structural housing shortage in the UK and continued support for first time buyers are long term factors to consider **where growth should come from.**

Ten Entertainment Group (LON: TEG) 214.32p, market cap: £148m

Year-end Dec 18 (£m)	Last reported	Fwd consensus
Revenue	76.4	84.1
EBITDA	20.6	24.4
EPS	12.5p	21.5p
PE	18.2x	10.7x
PEG	0.31x	

Source: https://www.yahoofinance.com

Ten Entertainment Group plc, together with its subsidiaries, engages in ten pin bowling operations in the United Kingdom. The company operates 42 bowling sites with approximately 1,000 bowling lanes under the Tenpin brand. It also provides amusement machines, table-tennis, soft play, laser games, pool tables, and restaurant and bar services. The company was formerly known as Birchams Newco plc and changed its name to Ten Entertainment Group plc in March 2017. Ten Entertainment has done well over the past five years and is one of the only green graphs, but **given the low earnings multiples there could be more to come.**

Topps Tiles (LON: TPT) 72.4p, market cap: £140m

Year-end Sep 18 (£m)	Last reported	Fwd consensus
Revenue	217	216
EBITDA	21.1	23.0
EPS	4.93p	6.58p
PE	12.80x	11.10x
PEG	-0.47x	

Source: https://www.yahoofinance.com

Topps Tiles Plc engages in the retail and wholesale distribution of ceramic and porcelain tiles, natural stone, and related products for homeowners and tile fitters in the United Kingdom. The company offers bathroom, kitchen, floor, wall, and mosaic tiles. It also provides adhesives and grouts; and tools and essentials, such as trims, underfloor heating products, cutters, tools and accessories, cleaning and maintenance products, underfloor heating products, and wet room products. The performance of high-yielding Topps Tiles has been anything but eye-catching in 2018 but like for like sales over the seven weeks to 18 May 2019 increased by 1.2%, suggesting that **there may be some signs of green shoots.**

Vertu Motors (LON: VTU) 40.10p, market cap: £150m

Year-end Feb 19 (£m)	Last reported	Fwd consensus
Revenue	2,982	3,098
EBITDA	38.7	40.5
EPS	7.19p	n/a
PE	5.37x	n/a
PEG	-0.54x	

Source: https://www.yahoofinance.com

Vertu Motors plc operates as an automotive retailer in the United Kingdom. The company sells new cars, motorcycles, commercial vehicles, and used vehicles, as well as provides related aftersales services. It operates a chain of franchised motor dealerships offering sales, service, parts, and body shop facilities for new and used cars, and commercial vehicles under the Bristol Street Motors and Macklin Motors brand names. The company's franchise dealerships include Volvo, Volkswagen, Land Rover, Jaguar, Audi, Mercedes-Benz, and Honda. Vertu is grabbing market share and investing in its digital platform. As well as an impressive yield, a share buyback program is also underway, and with 2018 results surprising to the upside, **it appears expectations are set conservatively.**

Wynnstay Group (LON: WYN) 322p, market cap: £63.5m

Year-end Oct 18 (£m)	Last reported	Fwd consensus
Revenue	463	461
EBITDA	12.6	10.7
EPS	38.9p	34.8p
PE	10.8x	9.21x

Source: https://www.yahoofinance.com

Wynnstay Group Plc manufactures and supplies agricultural products in the United Kingdom. It operates through Agriculture and Specialist Agricultural Merchanting segments. The Agriculture division offers animal nutrition products to the agricultural market; and cereal and herbage seeds, and fertilisers to arable and grassland farmers, as well as trades in grains. The Specialist Agricultural Merchanting segment provides specialist products to farmers, smallholders, and pet owners. Recent trading has been tough, **but the stock enjoys good asset backing with net assets of £53m of which £314.8m relates to intangibles**.

XlMedia (LON: XLM) 49.05p, market cap: £100m

Year-end Dec 18 ($m)	Last reported	Fwd consensus
Revenue	118	93.9
EBITDA	43.9	40.4
EPS	0.09c	0.12c
PE	10.6x	5.43x
PEG	-0.18	

Source: https://www.yahoofinance.com

XLMedia PLC is an UK- -based online performance marketing company. The Company focuses on paying users from multiple online and mobile channels and directs them to online businesses who, in turn, convert such traffic into paying customers. The Company's segments include Publishing, Media and Partners Network. The Company owns over 2,000 informational websites in approximately 20 languages. With poor results and closures in the Australian market in June 2018, XlMedia's share price hasn't recovered since, **but with such a low PE it may be the case the market has discounted the stock too much.** As per the recent AGM Statement "The business continues to trade in line with management expectations with our focus firmly on increasing the Group's exposure to higher margin publishing activities as set out in February 2019."

Summary

Due to the sheer number of companies that fall into the sub-£200m low PE bracket, it seems clear that the market is less interested in value stocks. This is a stark contrast to many companies that are f some of the top risers in share price last year, where PEs can go over 100x and many companies have no earnings at all. There are also clearly some out of favour sectors, including Automobile, Retail, Property/Real Estate, Construction/Building materials and Oil & Gas taking up most of the universe we reviewed.

One of the reasons could be that smaller companies are viewed as growth equity territory, and conceptual blue-sky potential anchored by terms such as blockchain, robotics and artificial intelligence, leading to some arguably overhyped valuations. We argue that small cap investors would do well to take a closer look at fundamentals, where established profitable companies are going cheap, but can still benefit from organic growth and a potential re-rating.

Another reason is bad news. Smaller companies, particularly in certain industries, may be seen to be more exposed to timing variations that can have a delay to earnings in the short term, and often this can trigger a knee jerk reaction in the market leading to an oversold position. Many stocks in the universe we reviewed have de-rated due to a profit warning or bad news on specific contracts, with investors perhaps giving smaller companies less margin for error. This in turn could offer some significant buying opportunities for investors willing to look beyond the headlines amongst the wide variety of value stocks that populate the small cap universe.

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