The best investing opportunities in the UK stock market

Top 10 UK stock picks

Company	Sector	Market Cap	Estimated pre-tax P/E	Revenue	Profit
Plus500	Trading Platform	£1.4bn	5.4	£475mio	£260mio
Photo-Me	Automation/Machinery	£290mio	9.6	£220mio	£30mio
Manolete Partners	Liquidation services	£108mio	10.8	£30mio	£10mio
Secure Trust Bank	Business/retail bank	£227mio	5.7	£200mio	£40mio
H&T	Pawnbroker	£106mio	7	£80mio	£15mio
M&C Saatchi	Advertising	£157mio	7.8	£200mio	£20mio
Capital Ltd	Mining Services	£154mio	7	£150mio	£22mio
finnCap	Boutique Investment Bank	£67mio	8.4	£45mio	£8mio
Marshall Motors	Automotive Retailer	£168mio	4.8	£2.4bn	£35mio
Studio Retail Group	Online Retailer	£249mio	6.2	£550mio	£40mio

Over the last 1-2 months I have been reading pretty much every single trading update of all UK London Stock Exchange listed companies, which has given me an excellent insight into which companies are the most undervalued firms in the market. By chance I found so many that I have struggled to allocate my capital accordingly, as I prefer concentrated holdings in no more than 5 individual businesses at a time. In a post-Covid world where we continue to see flare ups of new variants across the globe, it is crucial to become more selective. The biggest dangers to earnings are emerging from labour shortages, in particular in logistics related industries, freight costs, commodity/input prices and supply shortages such as in chips. While some of the above companies are at risk of these dangers (Marshall Motors & Studio Retail Group), overall these firms are all incredibly cheaply valued, with every single one of them showing a net cash position (except Manolete Partners, low single digit mio drawn, & Studio Retail Group, which is showing a core net cash value however).

Plus500

The CFD broker is unfairly cheap, as market participants are wary of volatile earnings and partly unhedged client positions that can lead to losses, if clients generate profits. While this is a fair argument, and given the firm has been investigated by the FCA in the past amid controversy of their client hedging, the market is being much more regulated now with less leverage deployed. The firm has now over £400mio in cash, secured sponsoring agreements with top football teams in Spain, Italy, Switzerland and Poland (& Rugby in Australia), is entering the lucrative US market, and benefits another year from £40mio in tax credits. Despite hot competition from eToro and Robinhood, Plus500 will remain an important market player for retail traders and should continue to benefit from the retail trading frenzy.

Photo-Me

Having changed its trading name from Photo-Me to ME Group, the company has diversified from its original Photobooth business and is now also a market leader in public laundries and juice machines. Slowly, but surely, the firm is moving back to pre-pandemic trading when their profits were in the £30-40mio post-tax region. On a recent call with Management they pointed out that they will likely make £5mio a year in profits from the recently acquired RestOclock Pizza vending machine business and that they continue to look for takeover targets that boost their profitability. The great thing about Photo-Me is that the firm is nearly immune from labour shortages, higher freight costs, chip shortages and commodity prices, but at the same time participate strongly in the reopening of the economies.

Manolete Partners

This liquidation firm specializes in the Third Party Funding (TPF) segment, which represents 20% of the £1.5bn liquidation market as a whole. Manolete is market leader in the TPF segment with over 67% market share. Amid the UK government furlough and other supporting programmes, bankruptcies and liquidations are actually lower than pre-pandemic times. However, we have recently noticed an uptick in creditors' voluntary liquidations, which are now higher than pre-pandemic times. The company has a decent backlog of cases that are yet to materialize and are well positioned to grow with the larger number of liquidations coming, as the government rolls off their support. Although cash flows likely won't look superb in the near term, their ROI on the cases they invest in is so far 168% and most cases are completed within 11 months, meaning that the record number of new investments last year will come fully to fruit in the current financial year.

Secure Trust Bank

Secure Trust Bank has recently announced that their earnings exceed the highest market estimates, which point towards pre-tax profits of around £40mio. The lender has fully exited the mortgage segment and is entering motor insurance. With 55% of their revenue from business clients and 45% from retail, the bank has a balanced lending book. As impairments were lower than expected in the last year, future profits are less certain and this is likely the reason for the cheap valuation. However, even if profits were to half from here, the valuation would still be 10/1, which is extremely low.

H&T

My co-worker and intern, Angus, has flagged this company to me. It is UK's market leading pawnbroker and, as all the other firms of this list, really cheaply valued. Angus has recently visited one of their shops to understand their business better. The pandemic has certainly left pawnbroking less attractive than in the past amidst the strong government stimulus. We find this firm to be equally well positioned as Manolete Partners to benefit from the UK government's reduced stimulus to be expected over the coming months. The company reports in just two weeks' time and while their pledge book is likely at 80% of pre-pandemic levels (which led to £35mio reduction of receivables during the pandemic), their retail trading seems to be above pre-pandemic levels, which should help their reduced earnings from pawnbroking.

M&C Saatchi

The advertising firm has recently guided the market towards £10mio in operating profits for H1 21. The big question mark remains on potential share dilution, which is currently at 19%. As they indicated in the half-year results, the company operates a business model through which senior management have minority ownership in subsidiary firms they operate. This means that they basically hold put options on the share price, as I understand it. With a share price of 135 pence, the put option liability is £12.6mio assuming that £5mio can be settled in cash. If they are able to settle all of it vs. cash the dilution would only amount to 4.6%. With a net cash position of between £33mio and £40mio, and the potential to settle those options in cash, the business is attractively valued.

Capital ltd

The Africa focused mining services company has also upped market guidance towards $200-210mio revenue for FY 21. With operating profit margins of over 15% and a market cap of only £154mio, the firm is in an excellent position to benefit from the higher capex of gold miners (makes up 90% of their revenue). The company also works towards diversifying their business more and gaining market share in other metals and services. Their NAV nearly doubled from FY 19 and should benefit further in FY 21.

finnCap Group

finnCap is a small boutique M&A advisor and has seen their revenues nearly double over the last year amid a healthy M&A market. This market has continued to flourish over the last couple months, and despite higher payouts related to compensation, revenue is set to exceed last year, if the current pipeline continues into next year. The advisor has benefitted from its focus on technology, life sciences and consumer & business service sector, which all performed strongly throughout the pandemic, and likely will continue to perform over the next year.

Marshall Motors

The automotive retailer has benefitted strongly from the high demand of car buyers due to international travel restrictions. The retailer has the cleanest balance sheet and most attractive valuations amongst its competitors Vertu Motors, Pendragon, Motorpoint, Lookers and Inchcape. The valuation has already soared by more than 30%, and despite the risks of chip shortages, the company is expected to post its highest profits in history. While the chip shortage is a risk to the company, there is always the used car section that will outperform, if there is a shortage of new vehicles.

Studio Retail Group

The online retail discounter has had a record year and benefitted strongly from the lockdowns. Having sold their education business, the firm is now fully focused on studio.co.uk and reduced their core debt to zero with debt remaining against most of their receivables from credit customers. The margins on their consumer lending is extremely high and data from the Office for National Statistics confirms that people continue their online purchases, even after the reopening. While some retail demand is likely to wane, the company also faces some risks from sky-rocket high freight costs, as many of their goods come from South-East Asia. Their CFO recently advised me that their $ hedging has been set at £/$ 1.40, which means those hedges are currently profitable (they incurred a £6mio loss last year). In addition, they accounted nearly 8% of their revenue as impaired, which is more than 15% of their receivables and seems quite prudent. As Fraser's Group sold down some of their holdings at 300 pence, there remains a risk of further selling from Fraser's Group, which is likely the reason why Studio Retail Group could not get more traction in their market cap.