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WEALTH MANAGER

Paul Marriage: six small-caps I'm happy to buy right now

By **Paul Marriage** / 14 Nov, 2018 at 14:20

With market uncertainty set to continue, Paul Marriage reveals six of the UK small-cap names he is happy to buy right now.

For active managers who have been running money for more than a decade it has been easy to say 'I told you so'. A global sell off and growth into value rotation was an entirely predictable scenario.

However, few have managed to navigate this period unscathed; so what do you buy now? We have always built our portfolios through meeting a wide range of management teams in every sector and this has always led us to a portfolio which combines quality growth and value to varying degrees, but seeks to avoid the spiciest valuations at either end.

I think that breadth of styles and end market exposure is even more prescient today given the market extremes that the last month has highlighted. Remember that the top 10 AIM stocks trade on a forward P/E of 38x, according to Bloomberg, but Peel Hunt data shows us that the average FTSE small cap is on 11.1x forward P/E.

Hence, the following are some of the UK small-cap names I am happy to buy right now.

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AB Dynamics

This is a world leading supplier of testing systems to the auto industry specialising in kit that simulates autonomous driving.

This year the septuagenarian founder has stepped temporarily back into the driver's seat and delivered solid upgrades in the face of sector turmoil.

The adaptive cruise control is working, the company has just applied for planning to expand its Wiltshire campus suggesting confidence in growth, now that a new CEO is belted in, is high. So is the rating and the growth rate.

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Gooch & Housego

This stock has been a very consistent performer since I purchased my original stake from the late, be-sandled founder Archie Gooch nearly 20 years ago.

It has consolidated its position as dominant no 1 in the optoelectronics box of tricks - that is the Q switch laser despite massive changes in technology and end markets.

In the process it has diversified the product range and customers broadly. Its components are also central to tattoo removal machines, surely the best demographic bet since beard trimmers.

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The Works

Are UK domestics a buy yet? This is a question we are, rightly, asked ever more frequently. The answer is yes a) the day before a Brexit deal is announced or b) six months after Noddyexit (a no deal Brexit).

So either way they are a buy sometime in the next year – so no harm having a nibble now.

We liked the simple combination of everything useful that WH Smith used to sell, but at half the price and whatever the hottest playground fad available on a high street near you or online when we saw The Works at its May IPO.

The shares are 25% lower now, and while I'm sure trading this summer has been hard work, 20% plus earnings growth still looks very much on the cards.

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Renold

We used to feel that being the world's most recognisable chain brand was enough to ask why it traded on 0.5x sales.

Then we found out it was hard to pass on steel prices, implying less added value than hoped, and that it was the only place in the world that had breakdowns in its German plant.

Now we have a share that has delivered two solid updates in the trot, a globally exposed revenue line and trades on 8x forward P/E. The balance sheet and pension are no longer the demons of old either.

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Wincanton

Or 'Losecanton, as the share price has been telling you this year. This is a domestic UK trucking business – there is nothing good about that surely?

Well, yes it is exposed to retail, food and drink and helicopters and cement and jobbing builders and pretty much everything that is the UK economy.

It is not bad at it either, although some activists think it can do better. But you can only reject the business if you think the UK will cease to exist in 2019.

We are open minded but on 7x forward earnings per share and a 5% yield there is nothing but failure priced in. Like Renold, and lots of companies founded before most of us were born, there is a hefty old pension. That's a well-managed beast, whose diet gets cheaper when interest rates go up too.

Vitec

I've gone alphabetical in this list but some may think I have left the best until last.

Vitec in 2018 represents some exciting niches exposed to fast growing image capture markets at a rating that does not fully reflect that growth potential.

There isn't much to explain away here either, most smartphone camera users are committed hobbyists or professionals – with many prosumers in between.

They buy Vitec products to optimise their end result. We'll happily do the same with shares valued at 15x earnings today too.