



Window-fittings maker Titon is struggling while audio-visual equipment firm Armour has maintained profitability so its shares should recover

Vote for unsung heroes

Richard Beddard explains why two unloved companies, one with assets worth more than its market valuation, the other with shares trading at only five times earnings, join our Thrifty 30

Having vowed to be judicious this year because the Thrifty 30 portfolio is filling up and the market is close to fair value, I have nevertheless added two companies, put another on standby and rejected only one – the one I felt most positive about before opening its annual report.

Titon is a rarity, a company with a market value that has fallen so far it's worth less than its current assets: stocks, money owed by its customers and cash, minus all liabilities. In round numbers, ignoring £4 million of fixed assets – mostly property – Titon owned £8 million in current assets, with £3 million of it cash, but only owed about £2.5 million, mostly to suppliers, at the end of its last financial year in September.

Let's say the company has ceased trading. If it had paid its suppliers there would still be £5.5 million left over for shareholders, yet at 40p investors value the whole company at only £4 million. In reality, the sums wouldn't work out so conveniently. Liquidation costs and the fact the company might have to sell stock off cheaply in a hurry means its assets would probably raise less than they're worth as a going concern, but the calculation still shows that investors have all but given up on Titon even though the company is still trading.

It's easy to see why. Titon makes ventilators and window fittings, which it sells to property developers – an industry hit hard by the recession. If the anaemic recovery falters, it could be a long time before Titon, which made small losses in 2008 and 2009, is profitable again.

The company is exposed to the capricious economy, but my other addition, Armour, is doubly exposed. It makes audio-visual equipment and accessories for homes and cars. Although it supplies property developers with home entertainment systems, it also sells equipment to about 6,000 retailers and commercial vehicle manufacturers. Its diverse range of products and brands may explain why it has fared better than Titon.

Armour isn't priced for liquidation, but its shares are cheap. At 14.7p, they are valued at about five times average earnings over the past 10 years. That's well inside bargain territory and reflects the certainty that profits were sub-par last year, and the likelihood is that they will be below average over the next cou-



KEY STATS THE SPREAD

Although they have heroic-sounding names, Armour and Titon are tiny companies, which often means wide spreads. When I added Armour to the Thrifty 30, its bid price was 13.5p and its offer price was 15p, so its mid price was 14.25p. Since the bid is the price you sell at,

and the offer is the price you buy at, the difference or the spread, in this case 1.5p or more than 10 per cent of the mid price, is an additional cost. But most of the time a broker can do better than the offer price so I've added Armour to the Thrifty 30 at a slightly more generous 14.7p.

ple of years. Although Armour has cut staff, it has kept up product development, and I'm betting it will remain a profitable company and recover eventually.

So why buy companies when their immediate prospects are grim? Statistics show these companies are the most likely to do better than we expect. They are not the most profitable, and don't have the best prospects, but our expectations are so low that in some cases they'll exceed them just by surviving.

Even so, the Thrifty 30 is laced with companies in the property and auto sectors, and I'm worried that should the economy turn sour again it will suffer. In the long term we expect to realise the value, but in the short term things could get bumpy. If I could go to sleep and wake up in five years, I should be pleasantly surprised. Sadly, I'm no sleeping beauty, so I'll be sharing the downs and ups with you.

More Thrifty information

blog.iii.co.uk/about-the-thrifty-30/

Additions: [Armour: blog.iii.co.uk/tag/amr/](http://blog.iii.co.uk/tag/amr/)

Titon: blog.iii.co.uk/tag/ton/

Removals: [ATH Resources: blog.iii.co.uk/tag/ath/](http://blog.iii.co.uk/tag/ath/)

I liked Gooch & Housego and might have included it had I been starting a new portfolio, but space is limited in the Thrifty 30 and I left it on my watch list:

Gooch & Housego: blog.iii.co.uk/tag/ghh/

Richard Beddard (richard.beddard@iii.co.uk) is companies and markets editor of Interactive Investor and a keen private investor. He writes about companies on the Interactive Investor blog.