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5 Small Cap Stocks to Buy

June 2024

Report written by Clear Capital research

Promotion

5 Small Cap Stocks to Buy - June 2024

Investing in individual stocks within AIM, the Alternative Investment Market, presents unique opportunities, particularly for those concerned about inheritance tax (IHT). AIM shares qualify for Business Relief, potentially exempting them from up to 40% tax upon death after a two-year holding period. Despite recent market declines, AIM's historically low valuations offer potential bargains, aligning with Warren Buffett's philosophy to "be greedy when others are fearful.

However, AIM investments entail risks, including volatility and liquidity concerns. Careful stock selection and thorough due diligence are essential. While AIM's tax advantages are appealing, investors should look at long-term growth potential alongside tax considerations when investing in individual stocks within AIM.

In this comprehensive report, we have meticulously pinpointed 5 stocks poised to capture your interest and potentially thrive in the UK Small cap market. These carefully selected equities stand primed to capitalise within the UK small-cap sector, presenting prospective investors with compelling avenues for potential growth and profitability.

The image below depicts a chart of the AIM100 index, which recently broke through resistance at 3719, confirming a bottom formation. Since this breakout, the index has been on an upward trajectory, consistently gaining ground. Despite this progress, the AIM100 index still has some catching up to do compared to the main UK benchmark, the FTSE100, which is trading near all-time highs. The technical breakout suggests we are now set for the AIM100 index to continue its ascent toward the January 2023 highs at 4310, indicating at least 9% upside from current levels. The technical outlook appears robust, suggesting a likely continuation of this upward trend in the coming months.

Source: Tradingview.com, Wealthclub

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ALTITUDE GROUP (ALT)

Altitude Group operates as a leading provider of technology solutions and promotional products. They offer a comprehensive range of services, including marketing tools, CRM systems, and e-commerce platforms, catering to the needs of distributors and suppliers in the promotional products industry. With a focus on innovation and customer support, Altitude Group helps businesses streamline their operations, enhance customer engagement, and drive growth through effective promotional strategies.

Fundamentals

Altitude Group Plc, a leading provider of branded merchandise solutions, continues to demonstrate strong growth and market momentum. The Group expects to meet or exceed consensus expectations for FY24, showcasing significant revenue and adjusted EBITDA growth of around 100% over the past two years. Current trading remains robust, with strong performances in the Merchanting and Services divisions, and promising new Gear Shop contracts. With increased US credit facilities and solid cash generation, Altitude is well-positioned for continued success and is confident in its outlook for FY25, supported by strategic foundations and a capable team.

Market Capitalisation: £26.68Million
Sector: Technology
12 Month Price Range: 26.6 – 53p
5 Year Price Range: 9.9 – 119p

Technical Analysis

Altitude Group's shares have recently completed a bottom pattern after breaking through resistance at 37p. The initial breakout in early May propelled the shares to 40p, followed by a slight retracement to retest the newly formed support at 37p. In recent sessions, there has been increased buying pressure, leading to a strong upward move, reaching the highest price since November 2023. This momentum suggests that we will likely see higher prices in the coming months, with a target of 53p.

Verdict: BUY
Buy between 37 – 39p
Stop: 33p
Target: 53p

Source: Tradingview.com & Reuters

THE CHARACTER GROUP (CCT)

The Character Group designs, manufactures, and distributes toys, games, and licensed products. They create and market a diverse range of products under popular brands and licenses, including Peppa Pig, Pokémon, and Fireman Sam. With a focus on innovation and quality, the company serves both domestic and international markets, providing engaging and high-demand products for children. Their operations emphasise creativity, strategic partnerships, and market responsiveness.

Fundamentals

Character Group faced challenges due to the cost-of-living crisis, impacting consumer spending over Christmas. Despite flat turnover, profitability improved in the first four months. Strong product portfolio anticipates sales growth in upcoming Toy Fairs, with positive customer feedback. With a robust balance sheet and ample working capital, the company remains well positioned. Profitability for the current financial year is expected to meet market expectations. Following the AGM, Richard King's retirement sees Carmel Warren succeeding him as Chair, ensuring leadership continuity. Additionally, enhancing the share buyback program by up to £1 million reflects the commitment to delivering shareholder value.

Market Capitalisation: £59.94Million

Sector: Consumer Durables

12 Month Price Range: 234 – 370p

5 Year Price Range: 157 – 635p

Technical Analysis

After months of sideways price action between 240p and 292p, Character Group shares have now broken through the significant resistance at 292p. Recent sessions have seen a strong upward move, indicating robust demand for the shares. With support now firmly established at 292p, any pullbacks to this level should be viewed as buying opportunities. We anticipate a move above 400p in the coming months.

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Verdict: BUY

Buy between 292 – 310p

Stop: 272p

Target: 405p

Source: Tradingview.com, Reuters, MTNewswires

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METALS EXPLORATION (MTL)

Metals Exploration is a natural resources company focused on the exploration and development of gold and other precious metal deposits. Primarily operating in the Philippines, the company's key asset is the Runruno Gold Project, which involves mining, processing, and production activities. Their operations emphasise efficient extraction techniques, environmental sustainability, and maximising shareholder value through strategic resource management and development initiatives.

Fundamentals

Metals Exploration plc, a gold producer in the Philippines, displays resilience in challenging negotiations with lenders regarding mezzanine debt. Despite disputes, Q1 2024 results show robust financial performance, with a revenue of US$44.4 million and positive free cash flow of US$21.6 million. Production at the Runruno mine exceeded forecasts, with no lost-time injuries recorded. The company's proposed acquisition in the Abra area demonstrates strategic growth efforts. With experienced leadership and strong community support, Metals Exploration remains poised for future success, despite ongoing discussions with lenders.

Market Capitalisation: £77.88Million
Sector: Mining
12 Month Price Range: 1.5 – 6p
5 Year Price Range: 0.07 – 6p

Technical Analysis

Metals Exploration shares have been trending steadily higher since late 2022, with dips in the share price consistently attracting buying interest. In late February 2024, the shares broke through significant resistance at 3.40p before moving sharply towards 6p. In recent weeks, there has been a corrective pullback to retest the newly formed support at 3.40p. The initial reaction at this level has been positive, indicating that we may see a continuation of the uptrend and higher prices in the coming months.

Verdict: BUY
Buy between 3.4 – 3.9p
Stop: 2.9p
Targets: 8p

Source: Tradingview.com, Reuters.

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ORIOLE RESOURCES (ORR)

Oriole Resources is a UK-based exploration company focused on early-stage gold exploration in Africa. The company's primary operations are in Cameroon and Senegal, where they conduct extensive geological surveys and drilling programs to identify and develop gold deposits. Oriole Resources aims to create value through strategic partnerships and rigorous exploration techniques, leveraging their experienced team to advance their projects from discovery to potential development.

Fundamentals

Oriole Resources, focused on gold exploration in West Africa, presents promising developments at its Mbe gold project in Cameroon. Signing an earn-in agreement with BCM International Limited for up to US$4 million investment underscores confidence in Mbe's potential. High-grade gold findings, with samples up to 256.74 g/t Au, validate project prospects. Infill soil sampling and geophysical data interpretation reveal an expansive structural corridor and identify additional target zones. Planned trenching and drilling programs aim to further delineate resources. With positive exploration momentum and competent leadership, Oriole Resources anticipates significant advancements, reinforcing its position in West African gold exploration.

Market Capitalisation: £13.83Million
Sector: Mining
12 Month Price Range: 0.07 – 0.57p
5 Year Price Range: 0.07 – 1.95p

Technical Analysis

Oriole Resources shares have been rangebound between 0.07p and 0.255p since late 2022. In early 2024, signs of life emerged as the shares broke through resistance at 0.255p, completing a bottom formation. The initial surge from this break saw the shares peak at 0.57p before a retracement. The shares have since found support on a retest of the 0.255p level, indicating continued demand. A break through 0.40p would confirm bullish momentum and could push the price towards 0.70p in the coming months.

Verdict: BUY
Buy between 0.255 – 0.32p
Stop: 0.197p
Targets: 0.70p

Source: Tradingview.com, Reuters.

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SCIENCE IN SPORT (SIS)

Science in Sport (SiS) is a leading sports nutrition company specialising in performance-enhancing products for athletes. Their operations include the development, manufacturing, and marketing of a wide range of nutrition products, including energy gels, protein powders, and hydration tablets. SiS focuses on scientific research and innovation to create high-quality, effective products that support endurance, recovery, and overall athletic performance, serving professional athletes and sports enthusiasts worldwide.

Fundamentals

Science in Sport demonstrates resilience and growth in its Q1 results, with revenue rising by 2.3% to £15.6 million. The company's record March revenue of £7.2 million and strong April trading highlight increasing momentum. Despite a FY underlying EBITDA loss of £2.7 million, SiS expects to achieve EBITDA positivity in H1.

Market Capitalisation: £31.13Million
Sector: Consumer Non-Durables
12 Month Price Range: 5.25 – 62p
5 Year Price Range: 5.25 – 84p

Technical Analysis

Science in Sport shares have been stagnant since 2022, fluctuating sideways between 5.25p and 17.9p. However, recent sessions have seen the shares break through resistance at 17.9p, indicating the potential for higher prices in the coming months. The initial upside target is to fill the gap at 23p, with a further move towards 30p appearing achievable.

Verdict: BUY
Buy between 16.3 – 17.9p
Stop: 13.4p
Targets: 30.6p

Source: Tradingview.com, Reuters.

Why Clear Capital Markets?

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We offer bespoke advice and strategies that are tailored to each individual client, from long term investment advice and portfolio creation to short term trading ideas, or a combination of both.

Clear Capital Markets provides research, advisory and execution only services on multiple asset classes including: Equities, Options, Futures, ETFs and CFDs.

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Small Cap, AIM or Aquis listed companies can be highly illiquid making them difficult to sell at the quoted price, and in some cases, it may be difficult to sell them at any price.
Small Cap, AIM or Aquis listed companies can have a large bid / offer spread which means there could be a large difference between the buying and selling price.
Companies listed on the AIM or Aquis market can be highly volatile and are considered high risk speculative investments.

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