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SHARES

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DIVIDENDS IN SIGHT FOR RBS

BUMPER EDITION: *SMALLER COMPANY 'SPOTLIGHT' REPORT INSIDE*

Miners are churning out more and more dividends

BHP's 150% dividend hike is the latest example... what's going on?!

Very large dividend hikes have been a common theme this year in the mining industry. This is somewhat unusual behaviour for the sector.

I believe you should enjoy the juicy dividends while they last as historically miners have preferred to spend their money on growth projects rather than cash returns. Longer term, you should invest in this sector principally for capital gains.

BHP Billiton (BLT) this week lifted its shareholder payment by 150% after reporting a bumper half year profit. **Acacia Mining (ACA)**, **Centamin (CEY)** and **Randgold Resources (RRS)** recently boosted their dividends by a large amount.

WHY ARE THEY SO GENEROUS?

Many miners are benefitting from higher selling prices and stronger balance sheets after several years of asset sales, cost optimisation projects and low investment spend.

Miners have previously been generous with dividends during times of lower commodity prices, paying shareholders to wait for the next uptick in the price cycle.

Once commodity prices start their ascent, the focus tends to shift to investing in new projects. We're arguably in the uptick cycle now.

Shareholder value could have been created by investing in the low point of the cycle when asset prices were cheap. Few companies were brave enough to take the plunge when investors wanted to see balance sheets repaired after years of excessive spending.

The sector was spectacularly burnt four to five years ago when commodity prices crashed. Companies had overpaid for assets that were only economic at high commodity prices. Miners were left with projects that destroyed, not created, value.

WHY IS EVERYTHING DIFFERENT NOW?

The aggressive growth pursuit mistake seems to still be at the forefront of their memory, hence why you haven't seen lots of takeovers or big capital expenditure projects.

Investment bank Investec believes miners will now focus more on creating value than chasing high production volumes, in order to avoid being left with unsold inventory. That could mean restricting supplies temporarily if it helps to stabilise or strengthen selling prices. Investec also reckons miners will continue to prioritise net debt reduction and not chase M&A.

If this turns out correct, miners may continue to increase capital returns and in turn make the sector more attractive for income seekers.

'Above all, the mining industry has now got some time to think about the future, rather than simply focus on ensuring its own survival,' says the investment bank, commenting on the benefits of higher commodity prices over the past year.

SYLVANIA PLATINUM'S DIVIDEND CONUNDRUM

HAVE YOU SEEN **Sylvania Platinum's (SLP:AIM)** share price recently? It is up 75% year to date. Its core business is doing very well, generating lots of cash and profit is rising.

Costs are coming down, it has no debt and there is a large cash pile in the bank. So why doesn't it pay dividends? They are on the agenda; but not this year, says boss Terry McConnachie.

It has 300 individuals in Australia with fewer than 2,000 shares each in the company, having not disposed of them when Sylvania cancelled its stock exchange listing in that country.

McConnachie says it would cost them more in fees to collect the dividends than they'd get from the cash payments. Therefore the miner is looking at ways to buy their shares and clean up the shareholder register before it starts paying dividends. (DC)

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IMPORTANT

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Is RBS poised for return to dividend list?

W&G sale u-turn could speed-up shareholder payments

Analysts believe **Royal Bank of Scotland's (RBS)** u-turn over the sale of Williams & Glyn (W&G) could accelerate the return of dividends by the bank. Long-suffering RBS shareholders have not received a dividend since the business was rescued by a government bail-out in 2008, during the global financial crisis.

The market mood is changing after RBS unveiled plans to abandon the sale of small business lender W&G after a seven-year struggle to find a buyer. The sale was part of European Union state aid demands, but instead RBS hopes to set-up a £750m fund aimed at supporting challenger banks to meet the funding needs of smaller businesses. That sparked a 6% rally in the share price to 256.3p.

'The State Aid task and the outstanding RMBS litigation issue are, in our view, the two remaining impediments to restarting dividends,' say UBS analysts Jason Napier and Ivan Jevremovic. The litigation refers to several residential mortgage-backed securities lawsuits being fought in the US courts over alleged mis-selling.

Consensus of the 23 analysts that publish forecasts for RBS suggests that a 1.15p per share dividend could be paid this year to 31 December 2017.

The balance of expectations shifts markedly in 2018, with consensus pitched at a 10.4p per share payout, implying an income yield of 4.1%. (SF)

BROKER SAYS 0 12 11

Expect further bad news from Interserve

Brace yourself for possible large cut to the dividend at forthcoming results

INTERSERVE'S (IRV) problems keep getting worse; and there could be more bad news to come. Its share price is down 30% in the past month and we see scope for further downside in the near future. Avoid at 233.25p.

The support services group was sacked by waste provider Viridor in November 2016 for failing to meet contract delivery milestones on an energy-from-waste project in Scotland. It's the second time Interserve has been fired from an EfW plant, having lost a contract in Worcestershire in 2015.

Interserve earlier this week said it had underestimated the costs of the Scottish debacle and six projects it quit last year, thereby increasing its provision from £70m to £160m. The matter is heading to the courts with the company warning that it expects 'a lengthy period of litigation'.

'We can have no confidence the provision is adequate,' says investment bank Liberum. It notes the company failed to comment on trading elsewhere in the business, adding that Interserve faces a 'whole range of trading challenges' across the group.

Average net debt is expected to balloon to £450m in 2017 which puts pressure on the company's balance sheet. Analysts reckon the company will cut its dividend by up to half at results on 28 February. Current forecasts imply the company has an 11.2% dividend yield. That certainly looks too high given everything that's going on. (DC)

Bovis puts quality before growth

Big downgrades for housebuilder as interim boss takes kitchen sink approach

We regularly warn investors that growth for its own sake is not a valid corporate strategy so **Bovis Homes' (BVS)** plan to dial back volumes to address customer service and construction issues should be applauded.

Under interim chief executive Earl Sibley the housebuilder is hitting the reset button after a self-acknowledged 'difficult' 2016 which led to the departure of his predecessor David Ritchie.

This makes sense but we have reservations over the investment case at the 756p. Conditions for the sector remain helpful at present but there's no guarantee this will be the case when Bovis looks to return to the front foot in a year or so.

Its problems came to a head with a profit warning in December 2016. In January 2017 it was revealed the group was paying cash incentives to customers to complete on house purchases before the end of the year as the group scrambled to hit growth targets.

Many who accepted the incentives subsequently reported unfinished and defective homes. The company took a one-off charge of £7m alongside full year results (20 Feb) to compensate these customers.

More significant is reduced output guidance for 2017 and beyond. Jefferies cuts its 2017 volume estimate to the low end of this guidance – 15% below 2016 – and assumes a 4% increase in operating costs to £80m. Its pre-tax profit estimates fall by 37% in 2017 and by 29% in 2018.

Laura Ashley looks vulnerable

A SAVAGE PROFIT warning from **Laura Ashley (ALY)** shows investors were right to be concerned about the potential impact of Brexit on purchases. The fashion-to-homewares seller's poor half year results revealed sharp UK like-for-like sales declines in the furniture category, as well as in decorating and fashion, with prevailing sterling weakness and wage cost pressures also behind the earnings alert. (JC)

HSBC falls long way short of expectations

GIANT BANKING firm **HSBC (HSBA)** is in the doghouse after delivering a 62% year-on-year decline in 2016 profit thanks to a number of one-off items. The $7.1bn figure is a long way short of the $14bn expected by analysts. Recent top-line trends do not look too encouraging either with $11bn of revenue in the fourth quarter against the $12.3bn consensus forecast. (TS)

Five stars for InterContinental

SHAREHOLDER RETURNS have been phenomenal at **InterContinental Hotels (IHG)**. The Crowne Plaza and Holiday Inn operator says it has returned $12.8bn since 2003, nearly $5bn of which has come from underlying operations. The company has lifted its total dividend for 2016's financial year by 11% and announced a $400m special dividend on top. This is a high quality business and a high quality investment. (DC)

Inmarsat dividend to return to earth

Yield still worth the risk despite growth threat

Shareholders in **Inmarsat (ISAT)** could face a payout freeze as the company grapples with investing for long-term growth versus bumpy free cash flow.

The satellites network operator has increased its dividend payment by more than 4% in each of the past five years, with double-digit increases in two of those financial periods.

Since 2013 free cash flow (FCF) has bobbed between $81m and $298.9m. It is anticipated to deliver $96.3m for 2016. Consensus forecasts for 2017 through to 2019 show free cash flow of $24.4m, $109.6m and $111.2m respectively. Dividends will cost the company between $245m and $264m per year over the same three years.

'We believe that the market is pricing in continued growth in the dividend near-term,' note UBS analysts Michael Hill and Polo Tang. 'In our base-case scenario we expect Inmarsat – possibly at full year 2016 results – to stop growing the dividend until it is covered by equity free cash flow (EFCF).'

EFCF is calculated by adding net income, depreciation and amortisation and net borrowings together, then stripping out capital expenditure and working capital.

'We believe this change in the dividend policy will allow Inmarsat to invest in its substantial long-term opportunities and avoid pressuring the balance sheet while EFCF generation is limited and uncertain,' comment Hill and Tang.

GROWING PAINS

Inmarsat has endured a tough past year with a patchy operating performance sparking increasing concerns over financing costs of its near $1.8bn net debt. The share price has almost halved since the start of 2016 to 638p.

Headline trading showed some improvement during the third quarter to 30 September 2016. Revenue and EBITDA (earnings before interest, tax, depreciation and amortisation) increased 5.8% and 14% to $342m and $205m respectively, although

almost all of the growth was down to its Ligado networks joint venture in the US (previously called LightSquared).

There has been some improvement. Contracts with government agencies have increased modestly while Inmarsat's aviation side has seen a swathe of agreements over the past three or four months. It has been signing airlines to its Global Xpress fleet to supply inflight broadband internet access.

But the enterprise division continues to go backwards as does its maritime arm, worth 45% of group revenues. The latter 'continues to be hindered by a sustained recession in the global shipping industry,' according to analysts.

SHARES SAYS: ↗
Even if the payout is frozen the forward income yield would still stand out at 6.6%. On balance that looks attractive even if sentiment may make for a bumpy share price through 2017. (SF)

BROKER SAYS 5 12 3

Ditch Coca-Cola HBC

Response to solid results feels overdone at Coke bottler

Sell into the share price recovery at leading Coke brands bottler **Coca-Cola HBC (CCH)**. Impressive 2016 results (16 Feb) have sustained the rally for now, although the 2017 outlook for the drinks group's territories remains mixed.

Full year results showed a 90 basis point EBIT margin improvement to 8.3% driven by self-help measures, benign input costs and improved free cash flow of €431.2m (£365.3m).

Chief executive Dimitris Lois expressed confidence 2017 will be 'a year of currency-neutral revenue growth and margin expansion as we continue to make progress towards our 2020 targets', while analysts predict acquisitions and special dividends.

So far, so good, but Coca-Cola HBC's three largest markets are Russia, growing-yet-turbulent Nigeria and economically distressed Italy. Further devaluation of the rouble or naira would be distinctly unhelpful, while another important market, Greece, remains distressed.

Numis forecasts 2017 pre-tax profit of €516.7m (2016: €469m).

SHARES SAYS:

At £19.86, Coca-Cola HBC trades on more than 20 times prospective earnings, too rich a rating given a cocktail of risks. (JC)

BROKER SAYS 7 5 4

FIVE profit warnings in 15 months

DEFENCE FIRM **Cobham (COB)** is on its heels after warning on profit for the fifth time in a little over a year (17 Feb).

Trading profit for 2016 was guided at £225m compared with previously trimmed guidance of £245m given a month ago. There are writedowns adding up to more than £750m.

The company also says meeting 2017 expectations will be challenging and hints further action may be required to shore up its balance sheet.

While this kitchen-sinking exercise by recently appointed chief executive David Lockwood and finance director David Mellors could interest value investors it is worth noting a big warning and £500m rights issue last summer proved insufficient to revive the company's fortunes.

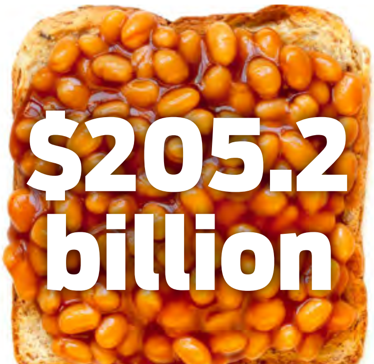
1st time in 12 months:

Investors give bullish signal with fund inflows

MORE PEOPLE PUT cash into long-only investment funds last week than withdrew money, representing the first weekly net inflow for 12 months. Bank of America Merrill Lynch says this move signals 'rising investor confidence'.

The net inflow was $0.5bn and coincides with a period when US stock markets are trading at record highs.

Long-only funds are products where the fund manager only buys stocks in the belief they will go up in value. They do not contain any bets that stocks will fall in value, which is called going 'short'.



THE VALUE OF FAILED TAKEOVER DEALS SO FAR IN 2017

A TOTAL OF 87 takeover deals worth $205.2 billion have been withdrawn globally so far in 2017, according to Thomson Reuters. That compared to 111 deals with a combined value of US$53.6 billion at the same point last year.

Kraft Heinz / **Unilever (ULVR)** is this year's largest withdrawn deal, valued at $162.2 billion and is the third largest of all time.

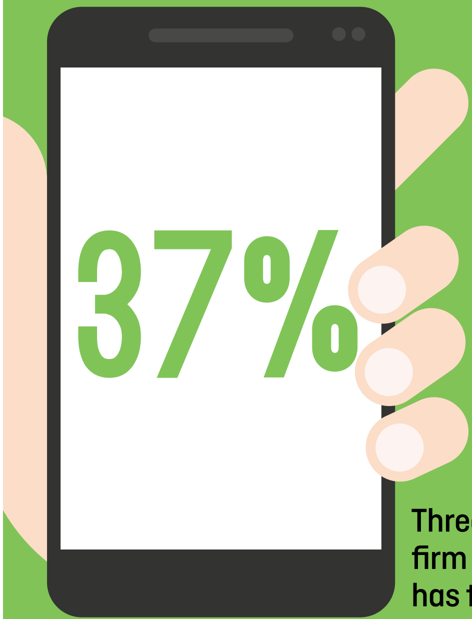
Other notable M&A failures in 2017 include Steinhoff's attempt to buy Shoprite which would have created Africa's biggest retailer. Steinhoff wanted to merge Shoprite with its African brands including clothing chain Pep. The deal collapsed on 20 February after parties failed to agree on terms.

FROM $17M TO ZERO: KENMARE RESOURCES' EARNINGS UP IN SMOKE

IT ONLY TAKES the slightest tweak to commodity forecasts for a miner's earnings to disappear. That's exactly what has happened with mineral sand producer **Kenmare Resources (KMR)** which is no longer expected to make any money when it reports 2016 results on 22 March 2017.

Investment bank Canaccord previously forecast $16.8m EBITDA (earnings before interest, tax, depreciation and amortisation) for Kenmare. That's now dropped to a mere $0.2m after Canaccord took guidance from figures released by sector peer Iluka Resources to update its commodity slate.

It remains positive on the investment case in the belief that Kenmare's commodity prices will soon recover, in particular ilmenite.



THREE HAS THE busiest internet and apps users of all the major UK mobile operators. Three's 37% UK market share of data traffic beats BTEE (33%), with O2 (17%) and **Vodafone (VOD)** (13%) bringing up the rear. This is particularly surprising considering that Three, owned by Hong Kong firm Hutchison Whampoa, has the least amount of spectrum to play with – just 12%. Watchdog Ofcom is likely to take these market share statistics into account when it begins its next spectrum auction later this year, when the 190 MHz (megahertz) of high capacity spectrum in the 2.3 GHz (gigahertz) and 3.4 GHz bands, suitable for ultra-fast 5G communications, goes up for grabs.

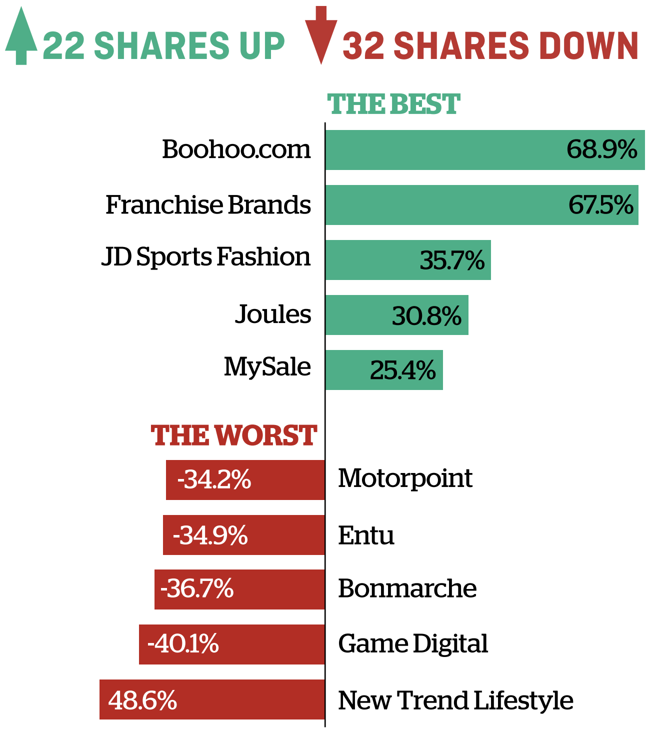
THIS IS THE year-on-year growth in own website sales reeled in by **Fishing Republic (FISH:AIM)** for the year to 31 December 2016. The fishing tackle retailer, growing through new store additions, organic growth from existing stores and online market share gains, is transitioning away from third party platforms to own website sales, 'where margins are higher and we own the customer'. Such higher quality sales now make up 40% of total online revenues at the industry consolidator. CEO Steve Gross is the former captain of England's under-21 fly fishing team.

UK BANKING SHARES: HOW HAVE THEY PERFORMED OVER PAST 6 MONTHS?

1	Aldermore	79.7%
2	Barclays	48.1%
3	Metro Bank	47.5%
4	Shawbrook	43.0%
5	Royal Bank of Scotland	38.5%
6	HSBC	31.1%
7	Standard Chartered	22.4%
8	Lloyds	21.9%
9	Virgin Money	20.0%
10	BGEO	8.8%
11	CYBG	5.1%

Data: 6 months to 20 Feb 2017. Source: SharePad

GENERAL RETAILERS: MORE PAIN THAN GAIN OVER PAST 6 MONTHS



Data: 6 months to 20 Feb 2017. Source: SharePad

Time to toast Distil

Profit breakthrough nears at premium drinks business

With domestic and overseas distribution of its premium drinks brands building, a return to breakeven then profitability is approaching at alcoholic drinks minnow **Distil (DIS:AIM)**.

Sales are bubbling higher at the supplier of high-end vodka, spiced rum and gin. Investors should get in on the story ahead of a fourth quarter update in April.

SPICEY POTENTIAL

Under executive chairman Don Goulding, a former senior manager at **Diageo (DGE)**, loss-making Distil has been reinvigorated in recent years and is held in well-followed fund manager Gervais Williams' **Miton UK Microcap Trust (MINI)**.

The business has been simplified to focus solely on selling owned brands with global potential including RedLeg Spiced Rum, Blackwoods Gin and Vodka, the 'outrageously smooth' Blavod Black Vodka, Jago's Cream Liqueur and Diva vodka.

DISTIL ↗ BUY
(DIS:AIM) 1.46p
Stop loss: 1.02p

Market value: £7.3m

In a post-festive period update (17 Jan), Goulding said results for the year to 31 March 2017 would beat market expectations following a buoyant third quarter including Christmas. Sales shot 71% higher and volumes grew by 56% as Distil ramped up marketing behind brands which are attracting an ever-wider consumer following.

Encouragingly, sales are advancing across all channels. Incremental supermarket listings with chains including **Tesco (TSCO)**, **Sainsbury's (SBRY)** and **Morrisons (MRW)** are driving growth, while sales are also building with bars, pubs and via the online retail channel.

STERLING TAILWIND

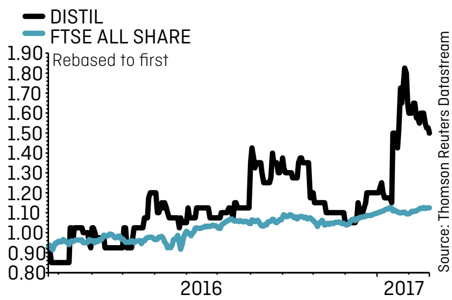
Furthermore, the weak pound is providing an export tailwind, international distributors taking advantage of lower buying costs. On top of this, Blackwoods is riding the international boom in premium gin.

RedLeg Spiced Rum, now the most prominent brand, takes its name from the RedLeg Hermit Crab native to the Caribbean and famed for its bright legs. It is apparently making 'very strong progress on all fronts'.

Approved for sale by the US Alcohol and Tobacco Tax and Trade Bureau (TTB) last year, the brand is now being launched in the vast US market, where Blavod Black Vodka has been successfully reintroduced.

Following the third quarter update, Progressive Equity Research raised its revenue forecasts for the next three years and said 'a strong Q4 performance could potentially see Distil achieve breakeven'.

Progressive upgraded its estimate for revenue in the current financial year by 9% to £1.65m, reducing the forecast pre-tax loss by two thirds to £40,000. For March 2018 and March 2019, Progressive forecasts pre-tax profit of £100,000 and £300,000, nudged up from £59,000 and £265,000 respectively before the festive update, as the top line froths higher to £2.1m then £2.5m. (JC)



Get ready for Pantheon's big comeback

Now is the time to buy this oil and gas laggard

A recovery in oil prices supported a big advance in small cap oil and gas companies in 2016. The average gain for the year in the AIM oil and gas universe was more than 60%.

Not everything went up; some for good reason, others because the market failed to recognise interesting opportunities. We believe **Pantheon Resources (PANR:AIM)** falls into the latter camp, meaning its current price weakness is a great time to buy.

WHAT WILL MOVE THE SHARE PRICE?

Imminent results from flow testing on Pantheon's two latest wells on its acreage, which spans neighbouring Tyler and Polk Counties onshore East Texas, could move the company closer to first production. That could act as a catalyst for the stock to return to the 180p levels seen last summer.

Pantheon has been a victim of its own success. After years in hibernation the stock exploded into life in October 2015 when the results from testing on its VOBM#1 well revealed a better-than-expected flow rate of 1,500 barrels of oil equivalent per day (boepd). Subsequent drilling proved equally encouraging.

Having raised $30m in an oversubscribed placing in March 2016, this winning streak came to an abrupt halt in September

PANTHEON RESOURCES ↗ BUY
(PANR:AIM) 92.7p
Stop loss: 60p

Market value: £199m

when the VOBM#2 well, an effort to increase recovery rates through horizontal drilling, had to be abandoned.

This failure was compounded in November as the company revealed inconclusive results from its vertical VOBM-3 well.

NOT ALL BAD NEWS

It wasn't all bad news in 2016. On 30 December the company announced it had made a discovery in the Wilcox sand – separate to the deeper Eagleford sandstone formation which had accounted for all of its previous success.

The company had developed a deep understanding of the geology through a three-year study with the independent State of Texas Bureau of Economic Geology in Austin.

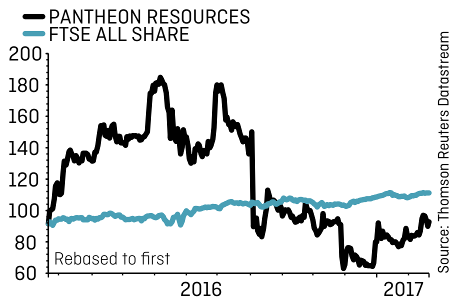
Pantheon believes it has identified geological similarities in its acreage to the prolific Double A Wells field located nearby.

House broker Stifel says despite the mixed drilling results of the last 18 months this hypothesis remains intact. It sees the first well (VOBM#1) as a top quartile performer but says the other wells are within the expected range.

'As such, we think the data remains compatible with the hypothesis that a Double A wells analogue has been discovered and our view on the acreage and thus the stock is broadly unchanged,' it adds.

We like the clear strategy to drill sufficient wells to prove up the potential of the assets ahead of a sale to industry. (TS)

BROKER SAYS: 3 0 0



PETRA DIAMONDS
(PDL) 152.5p

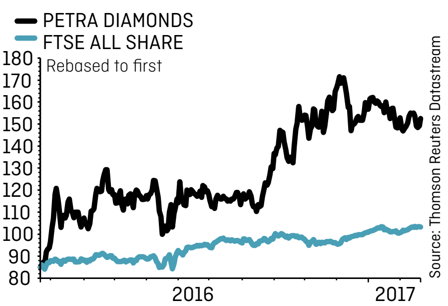
Gain to date: 78%
Original entry point:
Buy at 85.5p, 25 February 2016

INVESTORS SHOULD look past the risk that **Petra Diamonds (PDL)** won't hit its full-year production guidance. The miner is confident of playing catch up in the near term, should it not hit the target.

Petra said on 20 February that delays to starting a new processing plant would mean its annual production would come in at the lower end of previous guidance. That could lead investors to worry about a potential earnings miss if Petra can't hit that lower figure at the year-end in June.

It is perfectly normal for miners to experience delays with testing new equipment. Petra's chief financial officer Jacques Breytenbach tells *Shares* that actual mining is unaffected, so there is a growing stockpile of material to process once the new plant is ready, plus plenty of spare capacity to run the plant at higher than normal levels.

Breytenbach says Petra should start to see 'strong positive operational cash flow' from April this year. That should help alleviate any fears about the miner's ability to service its large debt position.



SHARES SAYS:
Our tip on Petra is up 78% over the past year. We remain fans of the company and see further upside for the share price over the medium to long term. Keep buying. (DC)

BROKER SAYS: 11 4 1

ALUMASC
(ALU) 184.5p

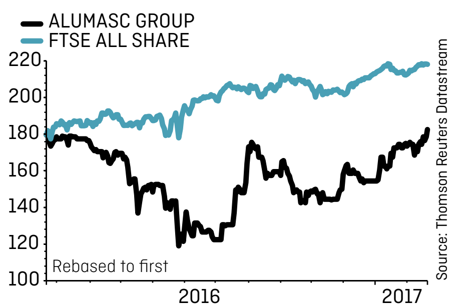
Gain to date: 5.7%
Original entry point:
Buy at 174.5p, 9 February 2017

NICHE BUILDING products play **Alumasc (ALU)** is in buoyant mood as its order book hits a record £32.9m (21 Feb).

The company's Levolux business has won three new UK contracts to supply bespoke balcony and balustrading systems (with a cumulative value of £5m) in the three weeks since publication of its half year numbers on 31 January.

This momentum is being matched in the share price and our trade on the stock is now comfortably in the money.

We think the shares will keep rising as the year progresses. The focus on specialist areas and plans for international expansion can help Alumasc outperform the modest growth expected in UK construction in the coming months. Revenue growth of 17% was posted in the first half of its financial year to June 2017.



Profitability should recover in the second half as the company passes through higher raw material costs. Announcements like this latest one from the company should help educate the market on its shift from engineering conglomerate to premium building products.

SHARES SAYS:
Stockbroker FinnCap has a price target of 225p, implying upside of more than 20% at the current share price. We remain bullish. (TS)

BROKER SAYS: 3 0 0

CRUNCH TIME FOR THE PROPERTY SECTOR

WHAT TO BUY, SELL AND AVOID

Large parts of the UK population remain fascinated by house prices. Regular data from various sources fill the headlines of websites and newspapers week in, week out. Property remains one of the top talking points at dinner parties, alongside the weather and schools.

It is therefore no surprise that so many of us are interested in property as an investment – whether that's simply owning your own home or buying shares in property-related businesses or funds.

The UK residential and commercial property market has held up better than many expected eight months ago when the UK voted to leave the EU. Shares in housebuilders were quick to bounce back from Brexit vote weakness; property funds are back in fashion; and UK house price growth accelerated at the end of 2016, adding £3,000 to the average cost of a property in one month.

Against this positive backdrop, we're now on the cusp of a very important period for the property market, both residential and commercial.

The process to start the UK's exit from the EU is expected to be triggered at the end of March. That could cause ripples in the UK economy and potentially disturb the property market.

We believe investors should now take the time to review their exposure to property before the sector potentially starts to wobble.

Our article looks across the full spectrum of the market, from housebuilding to conveyancing, and estate agency to commercial real estate.

SHOULD YOU BUY RIGHTMOVE OR ZOOPLA?

WHICH WOULD YOU prefer: a focused strategy with a quality earnings stream or a diversified approach which could help weather different economic cycles? That is the question investors choosing between the two main property listing sites need to answer.

Rightmove (RMV) is the clear market leader with anything upwards of a 70% share and derives almost all of its revenue from subscriptions charged to estate agents for listing properties on its site.

Zoopla seems to have accepted it cannot overtake its more established rival and instead is looking at providing a more rounded proposition to users. Its shares recently changed their name from Zoopla to **ZPG (ZPG)**.

RIGHTMOVE IS THE MARKET LEADER

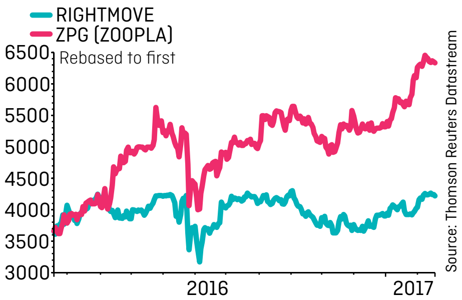
ZOOPLA IS CREATING A 'ONE-STOP-SHOP'

GAINING A UNIQUE ADVANTAGE

Zoopla's founder and chief executive Alex Chesterman has talked about creating a one-stop-shop for consumers to 'research, find and manage their homes'. He argues the enhanced engagement with users will 'create a unique advantage' for advertisers.

The company recently paid £120m for property information site Hometrack, part-funded by a £76.3m share placing at 365p. The transaction follows the £160m purchase of price comparison specialist uSwitch in 2015.

Hometrack's focus is on providing valuations to property professionals, homeowners and house buyers alike. As well as uSwitch, Zoopla already has PrimeLocation and Property Software Group in its portfolio and says it will look to complete another smaller deal in the coming months.



Zoopla used to consistently trade at a discount to Rightmove but the two companies have roughly reached parity in recent months.

Both stocks trade on an enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA) of between 23 and 24. This follows a storming share price performance at Zoopla, up 73.3% in the last year against a 20.1% rise at Rightmove.

The disparity in performance reflects two factors, in our view. First, Zoopla has a bigger story to tell due to its diversification plans. Second, as the main victim of estate agent-backed challenger OnTheMarket its shares had the most to gain as this challenge fizzled out.

WE PREFER RIGHTMOVE'S PROVEN MODEL

Although we like Zoopla, we prefer the proven model at Rightmove. Being the market leader creates a virtuous circle for the business.

Its site has the most listings and is therefore the one which prospective property buyers will go to when looking for their next home.

This reinforces Rightmove's position as a must-have product for estate agencies and gives it significant pricing power when it comes to securing subscriptions from agencies.

Even if there is a property downturn, Rightmove's services will still be required by estate agents and its subscription based model is not reliant on the volume of property transactions. The company reports its full year results on 24 February.

HOUSEBUILDERS: NOT AS CHEAP AS YOU THINK

COMMENT BY THE housebuilders over the last six months suggests there has been little impact from the Brexit vote on the public's property purchasing habits and market prices, except at the higher end of the London market.

However, share prices are yet to fully recover from the falls seen in the immediate aftermath of the shock referendum result on 24 June 2016.

Is this an opportunity for investors to buy the sector? There is a case to be made that the fundamentals behind the UK housing market are robust. Supply cannot keep up with demand, mortgage availability is good and Government policy is supportive.

A recently published white paper offered few fresh provisions to boost housing supply. Yet UBS analysts Gregor Kuglitsch and Miguel Borrega believe preservation of the status quo is good news.

'Given the positive environment the industry currently enjoys, we believe a "more of the same" policy strategy is positive for the stocks.'

You could certainly make the argument the housebuilders are undervalued on an earnings per share and dividend yield basis.

The average prospective price-to-earnings (PE) ratio of FTSE 350 housebuilders is 8.2 times and the average forward dividend yield is 5.2%.

Clearly the market is sceptical on their ability to hit earnings and dividend forecasts, rightly cautious on rising costs and there is an iffy outlook for prices as inflation bites.

Analysis by AJ Bell investment director Russ Mould shows margins are close to peak levels and on a price to net asset value basis housebuilders are as expensive as they have been at any point since 2007, before the financial crisis wiped billions off market valuations in the sector.

HOUSEBUILDERS' MARGINS ARE CLOSE TO PEAK LEVELS AND PRICE TO NET ASSET VALUATIONS LOOK EXPENSIVE

Price to net asset value is a much better way of valuing the sector than price to earnings. Therefore you could conclude the housebuilders aren't attractive investments at current prices.

Barratt Developments (BDEV) and **Bovis Homes (BVS)** trade on much lower price to net asset value ratios than the peer group.

That is explained by Barratt being embroiled in a police investigation into alleged misconduct in awarding contracts for new housing developments. Bovis is clouded by allegations it had bribed homebuyers to move into unfinished properties to hit sales targets.

Housebuilders' balance sheets are in much better shape to weather a downturn this time round but earnings and cash flow are still extremely sensitive to fluctuations in the wider property market.

And the ability to sustain profitability at current levels could be constrained by increasing labour and raw material costs.

LOOKING FOR SELECTIVE EXPOSURE

We think a selective approach is appropriate if investors want exposure to this sector. We have a favourable stance towards **Telford Homes (TEF:AIM)**. It has exposure to 'non-prime London', which should see continued strong demand thanks to the concentration of jobs in the capital, and an increasing footprint in the burgeoning build-to-rent market.

The company's target to exceed £50m pre-tax profit by 31 March 2019 looks plausible, in our view, and outweighs concerns over a fairly substantial debt pile.

ARE HOUSEBUILDERS REALLY CHEAP? – PRICE TO NET ASSET VALUE PER SHARE*

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Barratt Developments	1.25	0.22	0.05	0.18	0.33	0.41	0.77	1.32	1.41	1.52	1.31
Bellway	1.95	0.84	1.03	1.17	1.01	0.90	1.25	1.62	1.73	2.02	1.72
Berkeley Homes	2.27	1.20	1.03	1.20	1.01	1.92	2.21	2.64	2.38	2.74	2.23
Redrow	1.50	0.59	0.40	0.77	0.83	0.86	1.25	2.00	1.83	1.80	1.73

*Trailing. Source: Sharepad, AJ Bell

IS THE GAME UP FOR TRADITIONAL ESTATE AGENTS?

THE MARKET APPARENTLY thinks the traditional estate agency sector is in terminal decline.

Online challenger **Purplebricks (PURP:AIM)** now has a greater market value than leading estate agent **Countrywide (CWD)**, despite the latter being far more established and already profitable. We think both stocks are good investments. Purplebricks is disrupting the market; Countrywide looks cheap.

Purplebricks offers an online service backed by freelance estate agents on the ground.

Countrywide is a more traditional estate agent. Its shares have risen by 14% since we said they were undervalued in January. On a 2017 price-to-earnings (PE) ratio of 9.6 and offering a yield of 5.6% they still look attractively valued. A solid trading update on 26 April could provide the catalyst for further gains.

COUNTRYWIDE STILL LOOKS CHEAP

The company is addressing the changes in the market, closing some of its branches and increasing its online footprint. In June 2016 it began testing a basic online service with the option to upgrade to a fuller package without any penalty later on.

We think a lot of people would take up this option as most property buyers and sellers will probably still want some hand-holding through what is likely to be among the biggest transactions of their lives.

TOP DOG IN COMMERCIAL PROPERTY SECTOR

A KEY DEVELOPMENT in recent years is the surge in demand for warehousing facilities as retailers adapt to exponential growth in online shopping.

The only real estate investment trust offering pure exposure to this space, **Tritax Big Box REIT (BBOX)** is sitting on a portfolio worth £1.9bn three years after its £200m IPO, having subsequently raised a lot of money to expand its invested asset base.

Its shares are up more than 40% on the 100p issue price to 142.7p. Jefferies recently reiterated its 'buy' advice with a 160p price target.

In a 19 January trading update Tritax noted 'demand for high quality logistics assets continued unabated during 2016' despite the Brexit vote. It pointed to 'strong price resilience' in the sector, with 'modest capital value improvement' in the second half of the year.

TRITAX HAS BEEN THE BIG SUCCESS STORY IN THE PROPERTY SECTOR

Even if the economic backdrop is more uncertain and shoppers face more pressures on their purse strings in 2017, the shift online is likely to continue apace and will require retailers to invest in facilities to keep up with this demand.

Investors could have another listed option in the logistics market later this year. Rumours suggest private equity firm Blackstone could float warehouse business Logicor in London, potentially valued at £11bn.

WHAT DOES BREXIT MEAN FOR REITS?

JEFFERIES ANALYST Mike Prew thinks a hard Brexit would have a substantial impact on UK REITs or real estate investment trusts.

He says: 'The best way to go long hard Brexit is to go short UK REITs. **Great Portland Estates (GPOR)** sold Rathbone Square at a 4% discount to book value and was half-hearted in its return of capital.'

The transaction to which he is referring is the £435m sale of the Rathbone Square development by Great Portland Estates announced on 10 February.

The sale to German bidders Deka and WestInvest Gesellschaft was completed at this modest discount despite a good share of the floor space in the building being pre-let to Facebook as its new London headquarters. The US social media giant is paying £17.8m a year on a 15-year lease.

WARNING SIGN? PRIZED DEVELOPMENT RATHBONE SQUARE SOLD AT 4% DISCOUNT TO BOOK VALUE

Only £110m of the proceeds are being returned to shareholders with the remainder retained to provide 'flexibility' during a period of market uncertainty created by Brexit.

The next key transaction on which Prew thinks investors should keep tabs is **British Land's (BLND)** sale of its 50% interest in 122 Leadenhall Street, with a mooted sale price of £500m.

The commercial skyscraper is informally known as 'The Cheesegrater' and opened in July 2014.

Although he thinks there is scope for a sale at a 'pre-Brexit' valuation, Prew says the company has been 'cornered into selling the wrong building' thanks to balance sheet pressures.

He adds: 'The sale will probably be earnings dilutive, crystalise a tax charge and dilute the quality of forward earnings.'

PRICE COMPARISON FOR PROPERTY

OXFORDSHIRE-BASED **ULS Technology (ULS:AIM)** has made its name by disrupting one of the dullest parts of the property foodchain: conveyancing.

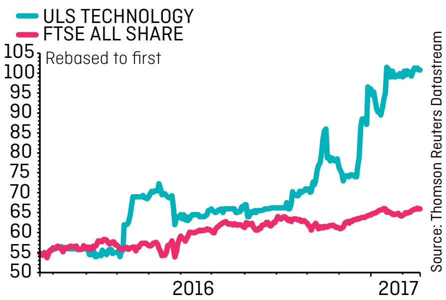
Its eConveyancer business-to-business platform is used by banks, building societies, mortgage brokers and estate agents to support the process of identifying and selecting solicitors to handle the legal aspects of a property transaction.

The system is able to filter by price, location, service rating, solicitor's availability as well as the user's requirements, and then instructs the selected solicitor directly.

The solicitor pays a fee to ULS on completion and can generate additional revenues for the business by using the platform to perform legal searches and ID checks.

ULS sees scope to grow its share of the conveyancing market from less than 2% to 10% by picking up business from big lenders; providing its services direct to consumers through price comparison site Moneysupermarket.com; and targeting housebuilders and estate agents which currently account for just 1% of its distribution.

ULS TECHNOLOGY: A VERY INTERESTING WAY TO PLAY THE SECTOR



The March 2016 acquisition of a 35% stake in HomeOwners Alliance for £575,000 is expected to support this growth push.

According to stockbroker FinnCap, achieving a 10% share of the market would imply £100m of turnover a year for ULS against a current market cap of just £65m.

Another leg to the story is provided by ULS' platform estateagent4me which allows homeowners to compare the performance of local estate agents. (TS)

LoopUp bats off Amazon threat

Remote meetings business puts quality experience above all else

Remote meetings specialist **LoopUp (LOOP:AIM)** has brushed aside emerging competition from *Amazon Chime*, the new video and audio conferencing platform being launched by the US technology giant.

LoopUp's share price fell by 25% in the three days following Amazon's announcement that it was entering the market (14 Feb). Unusually for a listed company, LoopUp didn't issue a statement to the stock market commenting on the share price slump.

We've spoken exclusively to the company to get its thoughts on the matter.

IS THE COMPANY WORRIED OR RELAXED?

LoopUp's chief executive Steve Flavell sees Amazon's development as no more than business as usual.

He insists that experience quality remains the key to addressing the vast enterprise market that LoopUp is targeting. We translate that comment as LoopUp believing its system is better quality than others.

Amazon is renowned for pouring huge investment into niche growth markets it feels it can eventually dominate. This reputation has clearly put the fear into LoopUp shareholders, worried that the US technology company's deep pockets may spell the end for the UK small cap firm.

Flavell remains resolute and relaxed. He says there is 'nothing new about big companies coming in' to the remote conferencing sector. He adds: 'we've been competing for many years against rivals with enormous funding resources.'

Rivals include Microsoft's Skype for Business, Google Hangouts, Cisco's WebEx, Adobe and AT&T. More recent start-ups include GoToMeeting, JoinMe and the UK's Powwownow.

THERE HAS ALWAYS BEEN COMPETITION

Large competitors have been around for as long as 'we've been in for the market, and we have still grown strongly,' says Flavell, adding that LoopUp has

LOOPUP TRADING IN NUMBERS

	2013	2014	2015	2016*
Revenue £m	4.9	6.7	9.2	12.8
Gross profit £m	4.4	5.8	7.5	10.3
EBITDA £m	-0.9	0.3	1.0	2.1

*Results due 8 March 2017. Source: Company presentation consistently grown during the past three years.

His confidence springs from the fundamental problems that have hamstrung remote conferencing for decades: platform reliability and experience quality.

Most existing platforms either require users to dial-in or piggyback voice over internet protocol (VoIP).

In the latter case it typically means poor sound quality and a propensity for the call to drop out. In the former instance, you often require endless introductions because you can't tell who is on the conference or not. In either case the experience becomes time consuming and frustratingly tiresome.

WHY IS LOOPUP'S PLATFORM DIFFERENT?

LoopUp's platform is a genuinely 21st Century digital streamlined option for hosts and participants that not only works well, but is intuitive and easy to use.

This last point is crucial to Flavell because it makes the platform accessible for even relatively technophobic users. The CEO even admits resisting some bells and whistles extras requested by some clients because it may add an unwelcome layer of complexity that will not suit everyone.

Interestingly, the Amazon Chime announcement did not come out of the blue. Flavell had wind that a new product launch was on the cards ever since Amazon's reported $2.9bn acquisition of California-based conferencing and messaging start-up Biba Systems in 2016, a company he had long followed.

Flavell says he feels very strongly that LoopUp is protected from competitors. It has several registered patents including the call start alert that is sent to all participants as soon as the first person joins the conference.

> LoopUp CEO:
> - 'Amazon's move doesn't change our view of the market opportunity'
> - 'We're not changing guidance'
> - 'We've seen this all before'

DOES LOOPUP MAKE ANY MONEY?

LoopUp joined the AIM stock market on 24 August 2016, raising gross proceeds of £8.5m at 100p per share. That gave the company a market capitalisation of £40.8m at the time. The story has clearly excited investors with stock demand sending the share price soaring to a record 182p at the end of January 2017. You can now buy the shares at the much cheaper price of 127.7p, thanks to the Amazon panic.

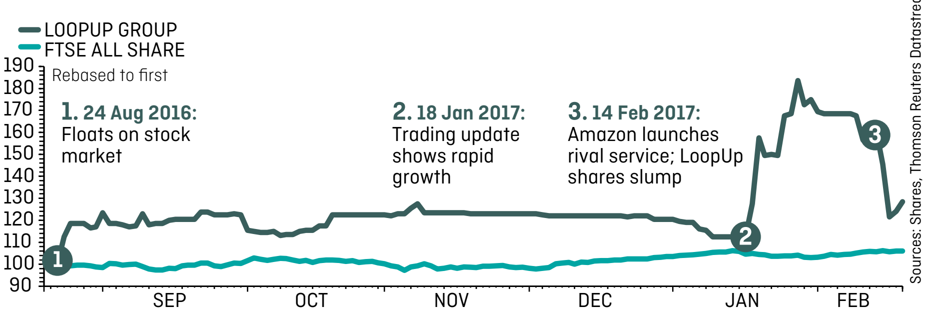
The business remains at an early stage in its growth phase but it is already profitable. The company has delivered compound average growth of 36% a year since 2013 and it has been EBITDA (earnings before interest, tax, depreciation and amortisation) profitable since the last quarter of 2013.

Full year results to 31 December 2016 are due on 8 March 2017. They will show a modest acceleration on that compound growth figure. The company is due to report £2.1m EBITDA on £12.8m revenue. Gross profit margins run in excess of 80%.

This is a huge potential market, worth around £5bn according to Flavell's information. The prize for success is enormous, especially for a business of LoopUp's relatively small scale.

The estimated enterprise value of roughly £48m looks like a rich valuation even after the recent stock plunge. Investors thinking about adding this stock to their ISA or SIPP (self-invested personal pension) may wish to wait for the results to be published before making the decision whether to buy or not.

It is one of those tricky situations where small companies can regularly trade on expensive ratings if they have rapid growth – such as is the case with LoopUp. We will keep a close eye on the results and will firm up our view on the investment case soon. (SF)



Why Miton Global Opportunities Trust is unique

Seeking to exploit opportunities in the investment trust sector

In order to generate returns, we believe investors will increasingly need to look for alternative investments which invest in company shares and bonds. Investment trusts are one such area to explore.

The massive infrastructure expenditure mooted during Trump's election campaign has the potential to place the government bond market under severe stress.

We believe the high valuations on which global company shares, otherwise known as equity markets, currently trade is a direct result of the very low alternative returns available from bond securities.

Should bond yields continue to rise, stock markets could be undermined. Moving on from a period of unconventional monetary policy would be healthy in the long term, however, stock markets are likely to undergo a period of turmoil whilst investors adapt to the new reality.

WEALTH MANAGEMENT CHAINS

Since 2000, those investment companies that traditionally bought investment trusts have undergone a process of consolidation. Consequently, many companies have merged to form vast wealth management chains.

The impact of this consolidation has meant that a large proportion of the investment trust sector has become effectively off limits to such firms as they are unable to cope with the huge capacity and liquidity levels required by these new mega-chains whose assets under management number in the billions.

This dynamic has in effect served to

'orphan' hundreds of investment trusts, many of whom are now under-researched and increasingly illiquid as demand has naturally slowed, despite there being no critical issue with the trusts, assets or their overall strategies.

INVESTMENT OPPORTUNITY

Without demand, the share prices of these investment trusts have slowly drifted lower than the value of their underlying assets creating a significant opportunity for the diligent and specialist investor to buy.

Miton Global Opportunities Trust (MIGO) is, we believe, a unique investment proposition that specifically seeks to exploit opportunities in this part of the investment trust sector.

MIGO's patient investment approach allows it to extract the embedded value in those investment trusts that are trading at a lower price to the value of the underlying assets in order to realise gains over the medium to long term.

To provide an idea of the scale of MIGO's investment universe, there are currently over 400 investment trusts listed on the London Stock Exchange with an aggregate value of over £100 billion.

Over 300 of these investment trusts are currently less than £250 million in size, and offer exposure to a broad range of alternative asset classes from the likes of property to natural resources. MIGO is therefore able to offer significant diversification across this pool of potential opportunities.

THREE-PRONGED APPROACH

The MIGO portfolio comprises of three broad investment categories; identifying special situations, identifying and backing strong managers, and investment trusts in realisation (the process of an orderly wind-down returning the assets back to investors).

A special situation typically involves a scenario where a series of specific circumstances or factors has led to a dislocation between the market's perceptions of an investment trust versus reality. In simple terms, where the market understates or simply fails to identify the true value, MIGO looks to buy these assets at a discount to the value of the underlying assets with the aim of making up this value-gap over time.

The second category involves the identification and backing of strong investment management teams, who have often fallen victim to the same structural changes mentioned previously. Although they may have demonstrated exceptional performance, some investment managers have found themselv wes left without any natural demand on account of the small size of the investment trust they manage. MIGO looks to exploit this opportunity by accessing these specialist, high quality investment management teams at a discount with a view to generating gains over time.

The third category involves realisations. In some circumstances, shareholders can influence a trust's behaviour by exercising their rights as owners and may opt to vote to attempt to force an investment trust into realisation or liquidation, in order to realise the full value of their investment sooner. Clearly, if the shares have been bought at a significant discount to the value of the underlying assets, then this often proves to be a profitable exercise.

INCREASING SUPPLY OF OPPORTUNITIES?

We expect the continued consolidation of the wider investment community to precipitate further structural change for investment trusts under £250 million in size. Furthermore, there appears to be no let-up in the growth of alternative asset classes creating future opportunities, many with an income bias. This development should lead to an increasing supply of future opportunities going forward.

We are focused on extracting embedded value, which already exists, not trying to generate returns from trying to second guess unpredictable future share price or market movements.

As MIGO is on a discount to its underlying assets combined with the discounts that exist within the Trust we believe there is good scope for this latent value to be realised. We are excited by the opportunities and believe MIGO's research-led approach has the ability to make gains over the long-term, in a significant but under exploited segment of the UK market.

BE AWARE OF THE RISKS

The value of investments may fluctuate which will cause fund prices to fall as well as rise and investors may not get back the original amount invested. Miton does not give investment advice, if you are unsure of the suitability of this investment you should speak to a financial adviser. Investment Trust Companies such as MIGO and those in which it invests may borrow money, which can then be used to make further investments (gearing). In a rising market, this 'gearing' can enhance returns to shareholders. However, if the market falls, losses will be multiplied.

DEFINITIONS

Bond – A loan in the form of a security, either issued by a UK or overseas government (government bonds) or company (corporate bonds), which pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Bond yield – The interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Is Unilever worth buying after failed takeover bid?

Attempted Kraft Heinz grab highlights packaged goods giant's attractions

Many investors are asking whether they should buy **Unilever (ULVR)** now that Kraft Heinz has given up on its $143bn mega-merger plan. The answer is 'yes', in our opinion.

We're big fans of the company as it has reasonably predictable earnings, fantastic brands and global reach.

We view the situation a bit like former FTSE 100 British technology champion ARM Holdings, acquired by a Japanese suitor last year. We really miss the stock now it has gone, as there is nothing else similar on the market. The same would have applied to Unilever if Kraft had been successful.

'Unilever has an unrivalled emerging market presence and generates more than half of its sales from those parts of the world expected to experience strong growth in demand for consumer goods,' comments investment management group Patronus Partners.

'Unilever generates strong cash flow and has consistently grown its dividend in real terms, making it a very attractive investment proposition.'

Cultural incompatibility, limited capacity for Kraft to raise the cash portion of the bid and anticipated resistance from Unilever shareholders are among the reasons why Kraft is thought to have walked away instead of 'going hostile'.

WHAT WILL UNILEVER DO NEXT?

Analysts have speculated that Unilever might respond to this episode by releasing some value to shareholders. Rattled management might respond with a major share buyback or a special dividend.

Could Unilever turn the tables and undertake a large ticket takeover itself of a rival (not Kraft)? It seems clear than investors are willing to back big deals, as evident by recent tie-ups in the form of British American Tobacco/Reynolds and Reckitt/Mead Johnson.

Although Kraft's bid for Unilever highlights the pressure on brand owners to consolidate in the

face of margin pressure and constrained organic growth, we remain big believers in large defensive businesses as superior, long-term investments.

Unilever's entrenched global distribution networks and brands including *PG Tips, Magnum, Marmite* and *Dove* represent a wide economic moat. That's a company's ability to maintain competitive advantages over its rivals to protect long-term profits and market share from competing firms.

According to Morningstar, Unilever has a wide economic moat derived from two key sources. The first is its entrenchment in the supply chain of retailers. A broad portfolio of products across multiple categories and supermarket aisles creates a virtuous cycle of competitive advantages, including intangible assets that new market entrants couldn't replicate.

Morningstar also says Unilever has one of the strongest cost advantages among its industry peers, being a fairly efficient manufacturer with one of the lowest costs per employee.

SHARES SAYS: ↗
We continue to like Unilever as a fantastic long-term investment. Buy at £35.67. (JC)

BROKER SAYS: 9 6 2

Pensions service firm is very attractive

Newly-floated Xafinity ticks many of the right boxes we desire in a good investment

A company with high levels of recurring revenue, sticky clients, non-cyclical earnings and potential to pay attractive levels of dividends has caught our eye.

These are some of the key characteristics we seek in a good investment and they are all present at pensions services firm **Xafinity (XAF)** which floated on the UK stock market on 16 February.

Anyone wanting fast growth with exciting end markets should look elsewhere. Xafinity is far more pedestrian in nature.

It simply makes a tiny bit more money each year versus the previous year, judging by the three year financial history in its IPO prospectus.

There is nothing wrong with that; in fact we love boring companies if they can keep generating handsome levels of cash to fund good dividends.

Xafinity certainly fits the bill. Shareholders should expect a 4.2% dividend yield when buying at the latest price of 153p, according to our calculations and guidance from the £209m cap.

WHAT DOES IT DO?

Xafinity used to be part of share registrar **Equiniti (EQN**) before being acquired by private equity group CBPE in 2013. Xafinity's co-chief executive Paul Cuff says CBPE did the opposite of most private equity firms by investing money in the acquired business.

'We needed to be established as a standalone business for the first time. CBPE set up new HR, marketing and finance functions, invested in technology and hired a new senior management team,' reveals Cuff.

Its core business is helping companies with defined benefit pension schemes to work out if there is enough money to pay out benefits and where the money should be invested. It also carries out administrative tasks to ensure the right pensions get paid to the right people at the right time.

Xafinity says 82% of its revenue is 'recurring', which it defines as coming from a client who is billed every month consecutively for the previous 24 months. A further 17% of revenue is repeatable in nature.

WHAT'S THE GROWTH ENGINE?

Growth is likely to come from the defined contribution (DC) pension market, essentially workplace pension schemes.

Employers used to tell staff they had to buy an annuity to get a guaranteed income in retirement. More flexible pension rules mean retirees can now stay invested in the market, but a lot of people don't know what to do.

Many employers want to help staff navigate this more flexible pension market, even though this isn't mandatory. One way is to switch staff from a DC scheme into a master trust which can be used as a decumulation vehicle.

Xafinity has a master trust platform called the National Pension Trust; it runs the infrastructure and a panel of trustees choose the underlying assets. This is a small part of its business at present with the potential to be much bigger.

SHARES SAYS: ↗
Looks really interesting. Buy at 153p. (DC)

Hope floats at Havelock Europa

Share purchase by fit-out firm's chairman points to recovery potential

Interior fit-out and refurbishment specialist **Havelock Europa (HVE:AIM)** has recovery potential at 8.5p.

New chairman Ian Godden recently invested £300,000 in the business, purchasing his 7.69% stake at a premium-priced 10p at a hoped-for point of change for Havelock.

Godden has a healthy understanding of the £3.84m cap, having been a director between 1995 and 2006, as well as pedigree in helping small and large companies grow. Respected fund manager Jeroen Bos is also a backer through the **SVS Church House Deep Value Investments (GB00B79XM025)** fund.

Havelock Europa's customers include banks and retailers such as **Marks & Spencer (MKS)** and Holland & Barrett. Full year results (27 Apr) for 2016 should show the benefits of a late 2015 restructuring coming through, while management continues to cut costs and forge deeper customer relationships.

In a year-end update (25 Jan), chief executive David Ritchie flagged a £21m 2017 order book, although he also drew attention to an 'increasingly challenging retail sector'. Half year results (22 Sep '16) revealed lower sales of £25.4m (2015: £28.9m), weak retail and corporate sector orders offset by strong public sector demand.

Encouragingly, the operating loss in the traditionally quieter half more than halved to £700,000. While burdened by net debt and a pension deficit, Havelock does also trade at a significant discount to half year net assets of £9.36m.

SHARES SAYS: ↗

Given Godden's show of faith and Bos' backing, Havelock Europa is worthy of interest at 8.5p. (JC)

EG's optimised share price

SHARES IN back office optimisation software specialist **EG Solutions (EGS:AIM)** jumped 50% to 60.5p in just four trading days last week after a relatively upbeat trading update was followed up with two new contracts. 'Momentum has been generated from a renewed focus on sales and distribution,' commented analyst Adam Lawson at broker N+1 Singer. (SF)

Contract headache for SimiGon

FLIGHT TRAINING systems supplier **SimiGon (SIM:AIM)** has seen its forecasts slashed as the Israeli Air Force drags its heels over a $2m contract. The agreement was awarded in June 2016 yet it remains bogged down in red tape. Broker FinnCap has cut $1m off its $7m 2016 revenue expectation but slashed pre-tax profit hopes from $1.4m to $0.4m. (SF)

Georgian Mining up 50% after drilling joy

VERY GOOD drill results and subsequent £88,000 personal investment in company shares by two directors is reason to take a closer look at micro cap **Georgian Mining (GEO:AIM)**. The company has found very high grades of copper at shallow depths at its 50%-owned Kvemo Bolnisi project in Georgia. Its shares are up 50% year to date, mostly in the past week following these two bits of news. (DC)

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Will this be the year when fund managers thrive?

Heightened market volatility theoretically favours stock pickers over passive investing

Active funds are increasingly facing serious competition from the lower cost, passive side of the market such as tracker funds and exchange traded funds. However, current market conditions are ripe for skilled stock pickers to thrive.

It is fair to say that 2017 could see significant volatility on global stock markets. The UK has to contend with Brexit negotiations; the US has a very unpredictable new leader; and Europe has numerous elections to navigate.

Conventional wisdom suggests active managers are better positioned to take advantage of the volatility which tends to accompany events like these, as they are free to buy and sell assets when they see an opportunity.

Passive investments, on the other hand, generally aim to mirror the performance of a benchmark so cannot offer this level of discretion.

UNCERTAINTY ABOUNDS

'There is clearly scope for geopolitical instability in 2017,' says Russ Mould, investment director at AJ Bell. 'We have a new US president with strong views on domestic and internal policy. Then there are elections in Germany, France, the Netherlands and possibly Italy. And we are still working out what Article 50 will mean for the UK.'

One effect of what has become known as the 'Trump trade' is the rotation out of defensive stocks into cyclical stocks.

'Anything considered a bond proxy was a popular theme over the last year or so, but sharp reversals caused by moves to cyclicals could add to volatility,' explains Luc Simoncini, senior equity investment specialist at asset manager Kames Capital.

'We are also waiting to see what the US Federal Reserve is going to do,' says AJ Bell's Mould. He quotes the old Wall Street saying 'three steps and a stumble' which implies that the stock market falls after the Federal Reserve raises interest rates three times.

As things stand, the Fed is expected to increase rates for the third time in the current cycle at some stage this year.

Rising interest rates may cause further volatility as investors shift their money out of fixed income according to Nathan Mead-Wellings, director at financial adviser Finmura Partners. 'Once rates start moving, the bond market will be sent into a real state of flux. You will see a lot of people rushing for the exit and the question is where do they put their money?'

ADVANTAGE ACTIVE?

'This is the sort of environment where you think stock pickers would like to show their mettle,' says AJ Bell's Mould.

'THIS IS THE SORT OF ENVIRONMENT WHERE YOU THINK STOCK PICKERS WOULD LIKE TO SHOW THEIR METTLE'

He cites the huge dispersion of performance in the FTSE 100 last year as an example. The best performing stock was up over 200% while the worst performer was down 50%.

'Value investing came back into fashion, and if the Trump trade and inflation pan out, you might expect value to dominate again in 2017.'

Kames' Simoncini is more cautious. He says: 'Volatility creates opportunities but it also creates challenges.'

If it is driven by macroeconomic or geopolitical events, large sections of the market react in a similar way, so differentiating between companies becomes tougher.

VOLATILITY PLAYS

If value stays in favour, Mould suggests investment fund **Jupiter UK Special Situations (GB00B4KL9F89)** might benefit.

'Ben Whitmore has been running the fund for a long time and has a terrific reputation. He has a knack of finding well run, financially sound businesses that other investors tend to shun.'

The Jupiter fund's five-year annualised return is 12.63% and it counts **BP (BP.)**, **Aviva (AV.)** and **Tesco (TSCO)** among its largest holdings.

Should the market turn particularly choppy, Mould recommends **Henderson UK Absolute Return (GB00B5KKCS68)**, a long-short fund with an annualised return over five years of 6.1%.

'If the market goes higher, it will not knock out lights, but if you are worried about a down year, it provides some protection while also giving scope for capital gains.' The fund's biggest holdings include FTSE 100 media group **RELX (REL)** and insurer **Legal & General (LGEN)**.

Simoncini at Kames also believes absolute return funds are worth considering. He advises focusing on market neutral vehicles which are less volatile than other asset classes and are negatively correlated to their performance.

'It is useful to have a building block like this in a balanced portfolio with a different return profile to shares and bonds, as it reduces the overall volatility and risk while producing incremental gains regardless of the market conditions,' he says.

DIFFERENCE OF OPINION

It is important to note that absolute return funds aren't guaranteed to protect your money. Several well-known absolute return funds suffered losses in 2016; one was even down by 25% in the year.

Many market experts have negative views towards absolute return funds as a lot of products have underperformed for years, not just 2016.

Overall, the key point to consider is that stock market volatility can be unpleasant yet markets have historically have had good and bad periods.

Don't spend hours looking at share prices day in, day out. Instead, diversify at the portfolio level via a range of funds whether they are passive or active and invest over the longer term to reduce risk. (KM)

Making the most of your pension allowance

Act now as the rules could change in the near future

As the end of the tax year approaches, savvy investors will be considering how to make the most of the various savings incentives on offer from the Government.

And with Philip Hammond preparing his first Budget as Chancellor in an environment of political and economic uncertainty, there is no guarantee the tax breaks available in 2016/17 will continue to be on offer in 2017/18 and beyond.

So here are a few of the key things you need to know about pension allowances you can take advantage of right now.

ANNUAL ALLOWANCE

Pensions continue to attract tax relief at your marginal rate. So if you're a 40% taxpayer and pay £800 into a pension, you automatically get £200 in tax relief from the Government.

You can also claim a further £200 through your self-assessment tax return. That means a £600 contribution is converted into £1,000 in your SIPP through tax relief.

Pensions tax relief is subject to an annual allowance of £40,000, so a higher rate taxpayer can make up to £32,000 in personal contributions a year, receive an automatic Government bonus of £8,000, and then claim back another £8,000.

Pensions offer the most generous savings incentives around, although your money is locked away until age 55. If you haven't used all your annual allowance for 2016/17 and have some money spare, consider upping your pension contributions before April.

It's also worth noting that the annual allowance has been cut back severely since 2010, so there's no guarantee it will remain as generous in the future.

THE RULES FOR HIGHER EARNERS

Your annual allowance will be lower if you have total adjusted income of more than £150,000.

Under Government rules, your allowance decreases by £2 for every £1 of adjusted income you earn above £150,000, down to a floor of £10,000. You can learn more about how this works **here**.

In addition, if you have taken any income aside from your 25% tax-free cash from your pension, your annual allowance for money purchase plans like SIPPs drops to £10,000.

From April, anyone who has accessed their pension flexibly will be subject to a £4,000 annual allowance.

HOW TO BOOST YOUR ALLOWANCE

It is also possible to boost your annual allowance to a massive £160,000 by using 'carry forward' rules. Carry forward allows you to use unused allowances from up to three previous tax years to increase your annual allowance in the current tax year.

You will not be able to use carry forward if you have already accessed your pension flexibly.

Some of this is quite complicated, so if you're unsure about whether you can take advantage of the rules outlined above it's worth speaking to a regulated financial adviser.

TOM SELBY,
SENIOR ANALYST,
AJ BELL

KEEP READING THIS WEEK'S SHARES AND DISCOVER:

CLICK ON THE BOXES TO JUMP TO A STORY

HOW TO MAKE 10%+ ANNUAL RETURN VIA PEER-TO-PEER (P2P)
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VCTS: DON'T DITHER IF YOU WANT 30% INSTANT RETURN
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IF YOU LIKED BOOKER, YOU'LL LOVE CONVIVIALITY
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LIONTRUST FUND MANAGER REVEALS HIS PROVEN METHOD OF SPOTTING GREAT STOCKS
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ALL THE IMPORTANT RESULTS, TRADING UPDATES AND MORE OVER THE COMING WEEK
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WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTERS Tom Selby Nick Sudbury Keith McGuinness

PRODUCTION
Head of Production Michael Duncan
Designer Rebecca Bodi

ADVERTISING
Sales Executive Nick Frankland 020 7378 4592 nick.frankland@sharesmagazine.co.uk

MANAGING DIRECTOR Mike Boydell

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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

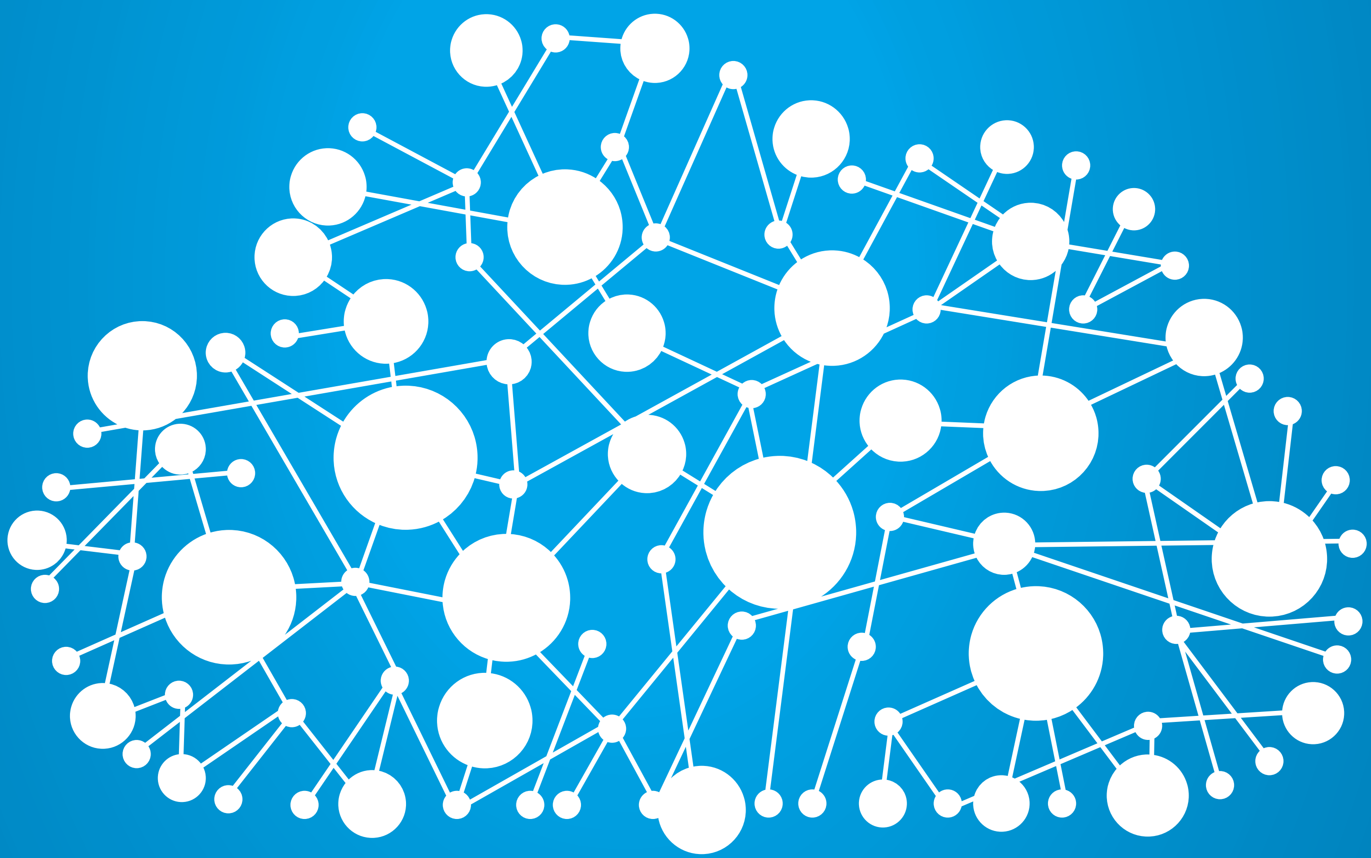
The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

THIS WEEK: 14 PAGES OF BONUS CONTENT

- AVATION
- DORIEMUS
- FUSIONEX
- NEX EXCHANGE
- PRIMARY BID

SHARES SPOTLIGHT

Growth & Innovation



INCLUDES NEWS, DATA, COMPANY PROFILES, COMMENT AND ANALYSIS

INTRODUCTION

The FTSE AIM All-Share index is up 32.8% year-to-date as small cap firms join in the rally which has seen the FTSE 100 hit new record highs in 2017.

Small companies remain one of the best ways for investors to make good money, albeit this is a high risk area of the market.

We publish *Spotlight* on a regular basis as a forum for small caps to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors. The articles therefore cannot be treated as independent comment. However, they can help you better understand a story before you do your own research.

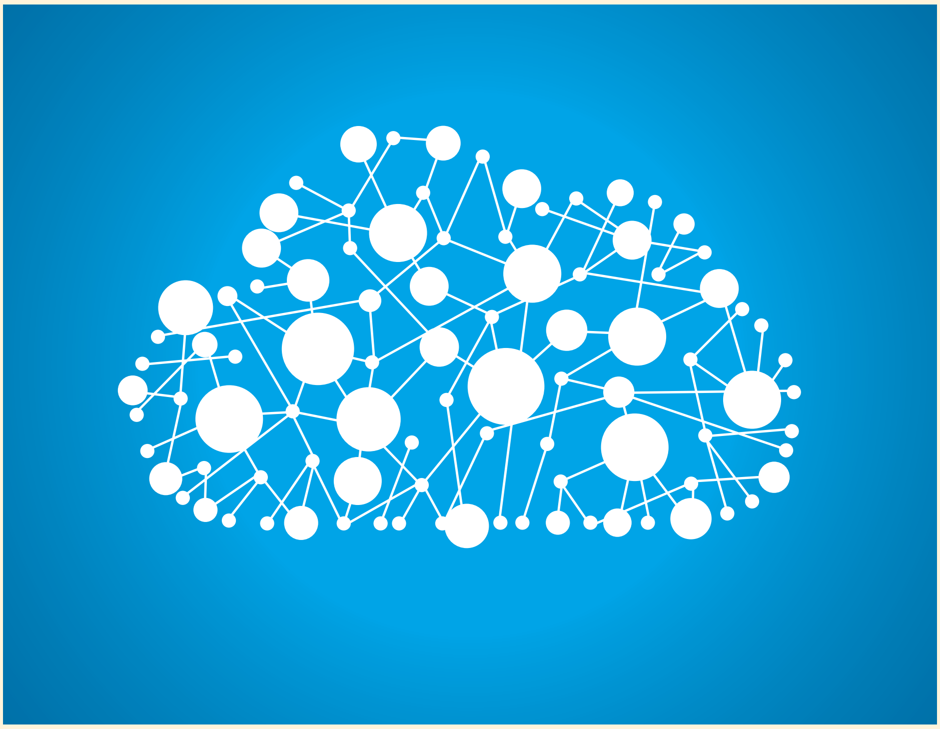
Investors are clearly excited about the potential of smaller companies and AIM is not the only market for growth companies.

The recently rebranded NEX Exchange plans to give its more established counterpart a run for its money as discussed in this issue of *Spotlight*.

Also in this edition we hear from aircraft leasing specialist Avation, oil play Doriemus and big data firm Fusionex.

• Click here for details of upcoming events and how to register for free tickets.

• Previous issues of Spotlight are available on our website.



DISCLAIMER

IMPORTANT

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Small cap funds can give you extra

Managers get privileged access to growth companies

Small cap fund managers typically enjoy the privilege of being able to meet company bosses on a regular basis. They get a chance to sit down and properly understand the businesses' risks and opportunities.

This can provide valuable information on which to base investment decisions – not just the initial purchase of shares but also to reassess the investment case as time goes on.

Unicorn Asset Management fund manager Simon Moon says meeting management teams is a 'hugely important' part of his investment process. 'It's highly unlikely we'll invest prior to meeting a team,' he adds.

Retail investors – namely the general public – rarely have the luxury of spending quality time with plc bosses. They are often limited to the information provided in company announcements and the occasional video interview on a company's website.

Investing in small cap funds can therefore give retail investors access to that investment edge possessed by fund managers.

QUALITY LEADERSHIP

The quality of leadership arguably has a far greater influence in the relative success, or not, of a smaller company than a multi-billion dollar business which has lots of managers.

That's a key reason why Katen Patel, who runs the **JP Morgan UK Smaller Companies Fund (GB0030880255)** alongside colleague Georgina Brittain, meets a lot of management teams.

'We are making sure that the management is strong and is disciplined with its funds,' he says. 'We like cash generating companies with healthy balance sheets.'

One of the chief stock selection criteria he uses is making sure that earnings growth can be repeated year after year. When he identifies a track record for 'sustainable earnings progression' it can lead to a long-term relationship with the company since 'we like to run our winners,' Patel explains.

Patel tends to steer clear of certain types of company. He's not a huge fan of biotech, for example, which can often be 'three or more years away from real revenues' and sometimes even longer before they make a profit.

His investment style will chime with many investors that favour a more risk-averse policy.

Patel has also noted the distinct change in demand for dividends. Many small companies are not noted for paying cash rewards to shareholders. They are often early in their growth curve where surplus cash can be better used to fund expansion.

Equally, he thinks companies themselves are more aware of the investor appetite for dividends. There is a risk that firms pay dividends to lure investors when in fact that's not the best use of their money.

GLOBAL COVERAGE

Another small cap surprise, in some cases, is their worldwide reach. 'A lot of smaller companies are more global than you might expect.' he says.

Patel cites infrastructure engineer **Hill & Smith (HILS)** as a good example, hence why he's been building his fund's stake recently.

The business is growing both in the UK and overseas, and is pitched as a possible winner from extra infrastructure spending anticipated under Donald Trump's presidency.

Patel has been buying more shares in promotional products manufacturer **4imprint (FOUR)** and housebuilder **MJ Gleeson (GLE)**.

A newish name to the fund's portfolio is **Quarto (QRT)**, which publishes coffee table-style books. 'It got in new management three years ago who are turning the business round, yet it still trades on a PE (price to earnings ratio) of six, with a 4% dividend yield,' Patel states.

GRAB THE MARKET'S NEW NAMES

Early access to IPOs (initial public offerings) is another reason why some investors will choose the funds route rather than waiting to buy the stock directly.

'We have unprecedented access to management and in-house experts,' the fund manager says.

STRUCTURAL GROWTH DRIVERS

Henderson fund manager Neil Hermon looks for companies with structural growth drivers. '(I seek) long-term underlying trends – for example changing demographics, over-arching governmental policies, or technological innovations – drive revenues and enable businesses to grow regardless of what's going on in the wider economy.'

Hermon manages **Henderson Smaller Companies Investment Trust (HSL)**. One holding that fits the bill for structural trends is Middle East hospitals company **NMC Health (NMC)**.

Admittedly NMC is now a mid-cap stock worth £2.5bn rather than a smaller company as its market value has increased sevenfold in the past four and a half years. However, that performance shows the potential gains to be made if you the pick the right stock.

'Small and mid-size companies – where we focus our attention – serve to further enhance exposure to the underlying structural growth trends.

'Their inherently small, nimble, ambitious management teams, unencumbered by red tape or giant operations, are able to seek-out new markets, launch new products or services, or look at new ventures overseas; ultimately, to build sales rapidly and tap into the trends that underpin the business' success,' says Hermon.

'Growth investing is inherently risky; a delicate and volatile balance exists between top-line growth and share price performance. Increasing the reliability of revenues by gaining exposure to long-term structural trends strategically aims to mitigate some of these risks, and by looking at smaller companies to seek out these opportunities the exposure to these trends is only further concentrated.'

NICHE PREFERENCE

Simon Moon, manager of **Unicorn UK Smaller Companies (GB0031791238)** likes stocks that are profitable, generate cash and operate in niche areas of their chosen end markets.

'Companies at the smaller end of the market capitalisation spectrum don't tend to be as well covered by brokerage houses and as such don't have exhaustive earnings estimate consensus, as such we feel that by putting in the 'leg-work' we're often able to uncover some 'hidden gems' that are underappreciated by the market.'

Somero Enterprise (SOM:AIM) is the largest position in his portfolio. The AIM-quoted manufacturer of specialist concrete levelling machinery has seen its share price nearly double in the past year.

'The machinery increases the efficiency and productivity of a build site and is attractive compared to the manual alternative. The company is attractively valued, pays a well-covered dividend,' says Moon.

'It is exposed to markets which are being driven by significantly increasing infrastructure spending and as such is growing revenues and profits strongly. The international nature of the business means it's also a beneficiary of the strengthening US dollar.'

Airlines line up to use Avation

avation PLC
COMMERCIAL AIRCRAFT LEASING

AVATION
(AVAP)

WEBSITE:
www.avation.net

EMAIL:
richard.w@avation.net

ADDRESS:
65 Kampong Bahru Road,
Singapore 169370,
Singapore

VITAL STATS

SECTOR:	INDUSTRIAL TRANSPORTATION
SHARE PRICE:	212.9P
MARKET CAP:	£125M

London Main Market-listed **Avation (AVAP)** is a commercial passenger aircraft leasing company managing a fleet of 40 narrowbody aircraft, which are leased to airlines globally.

Customers include Air Berlin, Air France, Air India Regional, Condor, Fiji Airways, UNI Air and Virgin Australia.

The group's fleet includes Airbus A320 and A321 narrowbody jets, ATR 72 twin-engine turboprop aircraft and Fokker 100 jets. The average age of Avation's fleet is 2.8 years while the average lease term remaining is 7.8 years.

The company's first half results released on 16 February 2017 delivered exceptional growth in revenue, profit and earnings per share.

Recent highlights including five new ATRs successfully placed with Flybe, two new Airbus A321 jets delivered to Thomas Cook and five new A321 jets delivered to VietJet.

Avation operates from its headquarters in Singapore where it is tax resident and a beneficiary of the Singapore Aircraft Leasing Scheme tax incentive.

Avation focuses on narrowbody commercial jet and turboprop aircraft on long term leases. Avation's strategy focuses on new and relatively new aircraft.

The company's business model has a history of delivering consistent profitability while seeking to mitigate some of the risks associated with the aircraft leasing sector.

Avation will typically sell mid-life and older aircraft to redeploy capital to new assets. This approach is intended to mitigate technology change risk, operational and financial risk, support sustained growth and deliver long term shareholder value.

Avation has operated for over 10 years and has a continuous history of profitability and growth that has delivered strong shareholder returns.

Highlights of results for the six months to 31 Dec 2016 (H1 2017):

LEASE REVENUE:
43% ↑
H1 2017: $45.1m;
H1 2016: $31.5m

EARNINGS BEFORE INTEREST AND TAX:
54% ↑
H1 2017: $27.6m;
H1 2016: $17.9m

AIRCRAFT ASSETS:
64% ↑
H1 2017: $850.4m;
H1 2016: $518.3m

PROFIT AFTER TAX:
54% ↑
H1 2017: $7.4m;
H1 2016: $4.8m

OPERATING CASH FLOW:
65% ↑
H1 2017: $31.1m;
H1 2016: $18.8m

EARNINGS PER SHARE:
46% ↑
H1 2017: 12.9cents;
H1 2016: 8.8cents

Big potential for Gatwick oil find

Doriemus

DORIEMUS (DOR:NEX)

WEBSITE:
www.doriemus.co.uk

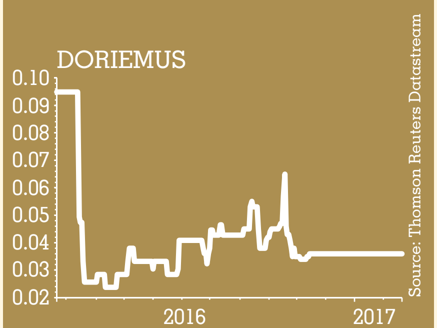
TELEPHONE:
020 7440 0642

ADDRESS:
Suite 3B,
Princes House,
38 Jermyn Street
London
SW1Y 6DN

VITAL STATS

SECTOR:
FINANCIAL SERVICES

SHARE PRICE:	0.036P
MARKET CAP:	£4.5M



The 1,200 square miles under the rolling Surrey and Sussex hills could contribute to England's long term energy security after 2016's spectacular oil discovery and record breaking onshore oil flows near Gatwick Airport's Horse Hill -1 oil well, described in some quarters as the 'Gatwick Gusher'.

The Horse Hill well is only one-and-a-half miles north of Gatwick International Airport and surprisingly oil was struck at relatively shallow depths of between 850-1,000 metres from surface and flowed at 1,630 barrels of top quality crude when it was tested in last February. Longer flow tests are expected soon to ultimately assess the real potential of this oil strike and determine how much oil can actually be extracted from this well.

David Lenigas, the man who helped head up that exciting Horse Hill drill, is now the executive chairman of UK oil explorer and developer London listed **Doriemus (DOR:NEX)**. Unlike most of the other UK onshore oil companies, Doriemus trades on London's new NEX Exchange.

David Lenigas
executive chairman

Not only is Doriemus a 10% partner in the Horse Hill's operator, it is also a 10% partner in the next high impact well currently being developed at the nearby Brockham Oil Field near Dorking. Brockham partners have just announced that they have hit the same oil pay zones that were found at Horse Hill and results will be out shortly.

Although the Brockham licence is smaller than its Horse Hill neighbour, it has the advantage of being a producing oil field. The new oil expected from opening up the tap on Brockham can therefore go very quickly into production and into UK refineries - helping power the UK economy.

And later this year Doriemus will hopefully be drilling more wells at Brockham and plans to drill another well at its Lidsey Oil Field near Bognor Regis.

WHY IS THE OIL UNDER THE WEALD BASIN?

Historically, there have been over 80 wells drilled in the Weald basin looking for oil, but scientists and big oil companies alike all believed that the 1,500 feet thick Kimmeridge clays and limestones that you can clearly see on the Dorset coastline were too immature to contain flowable oil. None of the companies who drilled those wells, including the likes of **BP (BP.)** and Esso, tested the Kimmeridge for its oil potential. Doriemus did, found success and continues to do so.

Horse Hill showed that the Kimmeridge in the Weald Basin is actually in the 'sweet spot' for oil generation. The big surprise about the Gatwick Gusher was that it actually did gush to surface and with lots of pressure. Horse Hill and now Brockham have demonstrated that the experts were wrong.

Doriemus is now playing an important role in developing this significant oil find south of London's M25. The rush is on to drill as many wells as possible in key strategic locations around the Surrey and Sussex countryside to find out the ultimate size of this pool of high quality oil. Horse Hill's 40 API oil proved to be even better quality than most of the wells in the North Sea, which is world famous for its 38 API high quality Brent crude.

US experts, Nutech, say there is now potential for over 100 billion barrels of oil in place in the Weald Basin and the Horse Hill well proved without doubt that there is a lot of oil. It won't be long before the Brockham well is flow tested and hopefully adds to the success of the Horse Hill discovery.

OIL'S IMPORTANCE TO THE UK ECONOMY

The UK economy relies on many sources of energy to power its growing economy and keep the lights on - gas, coal, nuclear, hydro, wind and solar.

Oil is not used in the UK to produce electricity, with the exception of emergency power generation. It is principally used to provide fuel for transport in planes, car, trucks, motorcycles, ships and to make thousands of products like plastics and medicines. Without oil, the economy would grind to a shocking and sudden halt. Increased domestic oil production is important for the UK economy.

North Sea oil has declined significant in recent years and oil imports accounted for just under 40% of UK energy supplies last year. Most of the UK's imported oil comes from Norway, Africa, Saudi and Russia.

David Lenigas says: 'Doriemus will be drilling a lot of wells in the UK this year and we are focused on being a leading player in the development and expansion of the UK's domestic supply. Our oil projects are all conventional deposits and we do not practice the controversial technique of fracking.'

Fusionex seizes Big Data opportunity

FUSIONEX
(FXI:AIM)

WEBSITE:
www.fusionex-international.com

TELEPHONE:
0207 038 8207

EMAIL:
uk.info@adv-fusionex.com

ADDRESS:
Level 33,
25 Canada Square,
Canary Wharf
London E14 5LB,
United Kingdom

VITAL STATS

SECTOR:
SOFTWARE & COMPUTER SERVICES

SHARE PRICE:	154P
MARKET CAP:	£83.8M

Multiple award-winning IT software solutions provider **Fusionex International (FXI:AIM)** is banking on its robust Big Data Analytics (BDA) platform, a raft of software products, and consistent track record of project deployments to increase its growth trajectory.

Ivan Teh
Fusionex CEO

THE NEW CRUDE OIL – DATA AS A COMMODITY

Fusionex, with a market capitalisation of approximately GBP 84million, is looking to the development of data analytics market to fuel its growth in the years ahead. According to international market research, analysis and advisory firm International Data Corporation (IDC), worldwide revenues for BDA has been expected to grow from $130.1 billion in 2016 to over $203 billion in 2020. The industries said to be spurring the majority of this increase include banking, discrete manufacturing, process manufacturing, federal/central government, and professional services.

IDC's Worldwide Semiannual Big Data and Analytics Spending Guide stated that 'banking will see the fastest spending growth. Telecommunications, utilities, insurance, and transportation will join banking as the industries with the largest compound annual growth rates (CAGRs) over the five-year forecast period'. In that vein, Fusionex charted its biggest ever haul of customers for its

BDA software, with a total of 79 contract wins in the past year, a 120% increase from 36 wins in the previous year.

Thanks to the persistent increase of Fusionex BDA's adoption in a variety of sectors and industries, Fusionex has positioned itself well to clinch and possibly go beyond its goal of 10 times the number of contract wins in the next several years.

INTERNATIONALLY-ADOPTED AND AWARD-WINNING SOLUTIONS

Fusionex is a multinational company with an international footprint, servicing companies from a myriad of locations and industries. To date, Fusionex has presence in Asia, Europe and the US.

The company's reach grew in the past year to include projects such as a Big Data management solution for a bank, medical analytics for hospitals and customer analytics for an integrated holiday resort. Its work in improving its clients' business operations as well as elevating the use of BDA also led to it winning a number of awards, which include the prestigious Asian Oceanian Computing Industry Organization (ASOCIO) Outstanding ICT Company Award for the second consecutive year.

Its BDA solutions also propelled Fusionex into Gartner's 2016 Magic Quadrant Report. The report by the research and advisory company analyzes companies in main tech markets and how well-placed they are to assist clients over the long term. Gartner cited Fusionex as a vendor of interest in the Real-Time Process and Operational Intelligence category.

DATA EDUCATION AND EVANGELISTS

While much has been gained by clients that have adopted Fusionex analytics in terms of productivity, efficiency, and increases in bottom-lines, a lot still needs to be done to increase the awareness of BDA and the manifold benefits that its users stand to reap. Fusionex is in the business of helping clients consolidate their disparate data, analyze them, discover never-seen-before trends, and make data-based informed and insightful decisions.

Fusionex is also committed to spreading the knowledge of how astronomically more an organisation can achieve if it just taps into the potential that their data holds. So in the recent year, Fusionex has started a working relationship with the Asia Pacific University of Technology and Innovation (APU), amongst others to educate, train, and groom the next generation of data professionals.

The 'new' alternative market for small caps

Most people are aware of the AIM market as a home for smaller growth companies but there is an alternative in London.

Now operating under a new brand, chief executive Patrick Birley sounds very confident on the future of the NEX Exchange, previously known as ISDX.

EXCHANGE RELAUNCHED

'In essence it's a rebranding but we're doing a lot of work behind the scenes. It is a better name and reflects an increasingly compelling offering for the small caps marketplace.'

The change in name came about as a result of a £1.28bn deal between financial services provider ICAP and Tullett Prebon which saw ICAP emerge as a more streamlined operation with the new moniker **NEX Group (NXG)**.

This shift is accompanied by a renewed attempt to establish the exchange as a genuine second option for smaller businesses which are looking to go public.

'We are marketing ourselves more heavily as a proper alternative venue for a company seeking access to the public markets,' Birley says.

'The current marketplace essentially offers a choice of one platform for coming to the public markets and that platform is pretty expensive as we understand it and can be difficult to deal with.'

Patrick Birley, chief executive, NEX Exchange

AIM-quoted companies can enjoy a fast-tracked admission on to the NEX Exchange and Birley clearly hopes some of these firms will eventually drop their AIM listing and make NEX their main home.

WHAT IS THE USP?

So what makes the NEX Exchange stand apart? 'First thing to say is that on a regulatory, legal and tax basis we're identical to AIM and the London Stock Exchange trading mechanism, from that aspect we are the same,' Birley says.

'But on top of that we offer a much more engaged business model and work closely with companies. It's a much more bespoke service, working with the company to achieve their ambitions, adapting our model to fit them and not the other way around.

'This reduces the execution risk of bringing a company to the market quickly and I've seen numbers quoted that we're as much as 75% cheaper and we think we can get those costs even lower. We also offer debt products, offering a reasonable coupon to investors and allowing companies to raise money at reasonable rates without giving away control.'

MOMENTUM BUILDING

There are already signs that the exchange is starting to build some momentum as Birley explains.

'We currently have 84 companies on the market, we saw volumes lower during Brexit and immediately post the vote but we have a reasonable pipeline opening up again as we come into 2017.'

Some of the more well-known names on the exchange include brewers **Adnams (ADB:NEX)**, **Daniel Thwaites (THW:NEX)** and **Shepherd Neame (SHEP:NEX)**. London football club **Arsenal (AFC:NEX)** is also on the exchange having been listed on a number of its previous iterations.

The debt of US natural gas producer, **Diversified Gas & Oil (DGOC:AIM)** was also launched through the exchange ahead of its IPO on AIM in February 2016, the biggest London float in the oil exploration and production sector since the oil price crash in 2014.

LIQUIDITY DEBATE

A key consideration for investors in small caps is how easy it is to buy and sell shares or, in other words, how liquid they are. But Birley thinks the importance of this factor may be somewhat overstated.

'We feel for many small companies the bar on liquidity is set far too high. A £50 million market cap company is not going to be trading in huge volumes every day.

'We are looking to attract long-term investors. This is not a market for speculators looking to get in and out of the stocks all the time. You need to do proper due diligence on growth companies and be prepared to hold them for a reasonable length of time.

Where does Birley see the future of the exchange? 'I think in five years' time we can be *the* market for SMEs in the UK. With such a compelling new brand and the new energy behind us we can be the main venue for SME financing.'

PrimaryBid.com – Broadening access to AIM placings

PrimaryBid

PRIMARYBID

WEBSITE:
www.primarybid.com

TELEPHONE:
020 7491 6519

EMAIL:
info@primarybid.com

The inability of individual investors to access and participate in new share placings for AIM companies has long been a frustration for both high net worth and smaller investors.

This frustration is compounded by often missing out on the typical discounted placing prices offered for such transactions. With private investors accounting for over 60% of secondary investments across AIM, there is a clear need for a solution that levels the playing field for *all* investors.

AIM companies themselves also have a desire to engage with constituents from across their entire share register and not just to focus on institutional investors when raising funds. They are, however, often frustrated by the lack of an efficient method to engage with these important stakeholders.

The solution to this problem is PrimaryBid.com, a platform open to all investors, giving access to placings, fundraisings of AIM-listed companies, but more importantly supported by the broking community. PrimaryBid uses technology to allow private investors to participate in a way that regulation and market structure has made difficult in the past.

Since its formal launch in March 2016, PrimaryBid has delivered fifteen separate transactions, totalling almost £34m raised from its users. With a rapidly growing user base on the platform and the recent launch of a new smartphone app, PrimaryBid is accelerating the evolution of capital raising for AIM companies – giving access to all, as well as simplifying the process.

DIGITAL TRANSFORMATION OF EQUITY FUNDRAISING

The management team behind PrimaryBid has a combination of capital markets, technology and marketing experience, gathered across roles at companies including Credit Suisse, Bank of America, Citi, Ernst & Young, Yahoo and Amazon. This breadth of knowledge and expertise has enabled the team to transform the traditional fundraising process by harnessing modern crowdfunding methodologies alongside the backdrop of a highly regulated capital markets environment. The team's key focus was to put the investor at the heart of a streamlined, highly efficient, digital platform while maintaining a robust regulatory compliant framework.

Therefore, the user experience was a key driver for the development of this unique platform, ensuring that new users can sign up quickly and participate easily. The PrimaryBid team worked with a leading design agency and experienced web developer to bring this vision to life resulting in a multi-platform fintech solution, giving investors the choice to access the platform from their PC, tablet or more recently via a smartphone app.

GOING MOBILE

From day one the website used responsive web design, ensuring a clean mobile browser experience – essential as almost 30% of all traffic to the platform visiting was from a mobile device. As one of the core goals of PrimaryBid is to improve access and communication with investors, a dedicated smartphone app was the next logical step. Developed for the two most common smartphones, Apple

and Android, the app launched in November 2016.

This decision has proved to be successful already. The company says that 43% of investors in the recent fundraising for Mobile Streams subscribed and paid via a phone or tablet.

This speed of access is a key differentiator for PrimaryBid and one which is at the core of unlocking previously untapped equity fundraisings. Investors can be contacted via email or by push notifications to the PrimaryBid app, visit the site and subscribe to a placing within minutes. Automated systems register and verify new users, allowing them to pay immediately for their investment with a debit card.

IT'S CROWDFUNDING, BUT NOT AS YOU KNOW IT

Unlike typical equity crowdfunding opportunities which focus on high risk unlisted companies, PrimaryBid allows both high net worth and private investors to participate in future fundraising exercises for equities listed on AIM.

From an investor perspective, only offering opportunities to invest in AIM companies means that each business already has a high standard of corporate information and financial history, making assessing the risk of an investment far easier. Furthermore, typical crowdfunding investments are much longer term and reliant on a further corporate action to give the investment a tangible return. With AIM companies, the ready availability of the secondary market for shares means that investors can realise their investment with relative ease as and when they choose to do so.

FLEXIBLE TRANSACTION MODELS

Working with companies and brokers, PrimaryBid has developed several different transaction models that complement existing fundraising efforts and add incremental demand. The platform can accommodate out-of-hours transactions or publicly available offers such as the fundraises for **Sound Energy (SOU:AIM)** and **Mobile Streams (MOS:AIM)** in late 2016.

Sound Energy was a fully underwritten transaction with two separate offers, one for individual investors and another for institutional shareholders. Both offers were on the same economic terms. Available for just one day, the offer was oversubscribed, resulting in the company raising £26.9m, almost 12% over the underwritten amount of £24.1m. Individual investors transacting on PrimaryBid were predominantly new users, demonstrating how easy it is for companies to engage and empower their existing shareholders to participate in a transaction.

This was especially important for Sound Energy CEO, James Parsons, who said: 'Sound Energy values its private investor base and has chosen this structure [offers through PrimaryBid] to enable the introduction of institutions to the register whilst also re-affirming our commitment to treat private investors fairly.'

LOOKING AHEAD TO 2017

2017 has started strong with a £3m underwritten fundraise for Ascent Resources in early February. Further development of the platform is likely, including developments and improvements to the existing website and app, but also potential new innovations to deliver further benefit to its users.

MAKE A DECENT RETURN VIA PEER-TO-PEER (P2P) LENDING

HOW THE PLATFORMS WORK, HOW MUCH YOU CAN EARN AND THE RISKS TO CONSIDER

Interest rates on traditional savings accounts are at record lows and even if you are prepared to tie your money up for five years you would struggle to earn 2%.

The poor returns have resulted in thousands of savers switching to peer-to-peer (P2P) lending as a more lucrative alternative.

P2P websites match investors with borrowers and provide a convenient platform that allows the two groups to agree lending arrangements.

This enables people with spare cash to lend their money to individuals or small businesses who want to borrow.

SPREADING YOUR RISKS

The loans can be divided between lots of different borrowers to reduce the risk of bad debts.

You can choose the length of time that you want to lend your money and the credit worthiness of the recipients. In return you are likely to get a higher rate of interest than on cash savings in the bank. Borrowers might also be better off as they could end up paying a lower rate of interest than on a bank loan.

The Peer-to-Peer Finance Association says nearly £3bn was lent via P2P platforms in 2016. UK platforms with the most amount of business in the year included Funding Circle, Zopa, RateSetter, LendInvest and Market Invoice.

HOW MUCH CAN I MAKE?

The largest P2P platform is Zopa, which lends exclusively to individuals and operates a provision fund to cover the likely level of bad debts.

Its estimated rates of return vary between 2.9% and 6.1% depending on how much risk you want to take, with investors able to withdraw the repayments whenever they want and to sell their loans early assuming that there is someone willing to take them on.

Other platforms offer some sort of security for the debt. For example, FundingSecure specialises in loans secured against the personal assets of the borrowers and says annual rates tend to be 12% to 13%.

IT IS POSSIBLE TO EARN 10%+ ANNUAL RETURN FROM P2P

There is also Lendinvest, which makes bridging loans and loans to finance the re-development of properties with the loans secured against the bricks and mortar. You can lend for anything from one month to three years with the expected net returns starting at 4% per year.

ArchOver says it offers lenders a 'Secured & Insured' investment opportunity, where the security is in the form of credit insurance over the accounts receivable. 'We believe the security we provide is unparalleled within P2P business lending and is matched with a favourable return of up to 7% a year,' says chief executive Angus Dent.

Funding Circle provides loans to small businesses and currently offers an estimated return of 6.8% per year after adjusting for the estimated level of bad debts. You can choose to whom you want to lend or use the Autobid feature to do it automatically. The latter divides your money between at least 100 different businesses to reduce the risk of default.

P2P INVESTMENT TRUSTS

IF YOU ARE not comfortable using the peer-to-peer platforms you could still benefit by buying one of the P2P investment trusts. There are half a dozen listed on the stock exchange including **P2P Global Investments (P2P)** and **Funding Circle SME Income (FCIF)** with most targeting yields in excess of 6%.

WHAT IF THE BORROWER FAILS TO REPAY?

Savers who put money into a cash deposit account are protected by the Financial Services Compensation Scheme (FSCS), but there is no such cover with P2P as it is more akin to an investment.

'P2P isn't covered by the FSCS, which means that if a borrower or provider defaults then investors could be left out of pocket,' warns Patrick Connolly, a certified financial planner at independent financial adviser Chase de Vere.

The rates quoted by the various P2P platforms are the expected returns and are not guaranteed. These could turn out to be lower if the level of bad debts is higher than forecast.

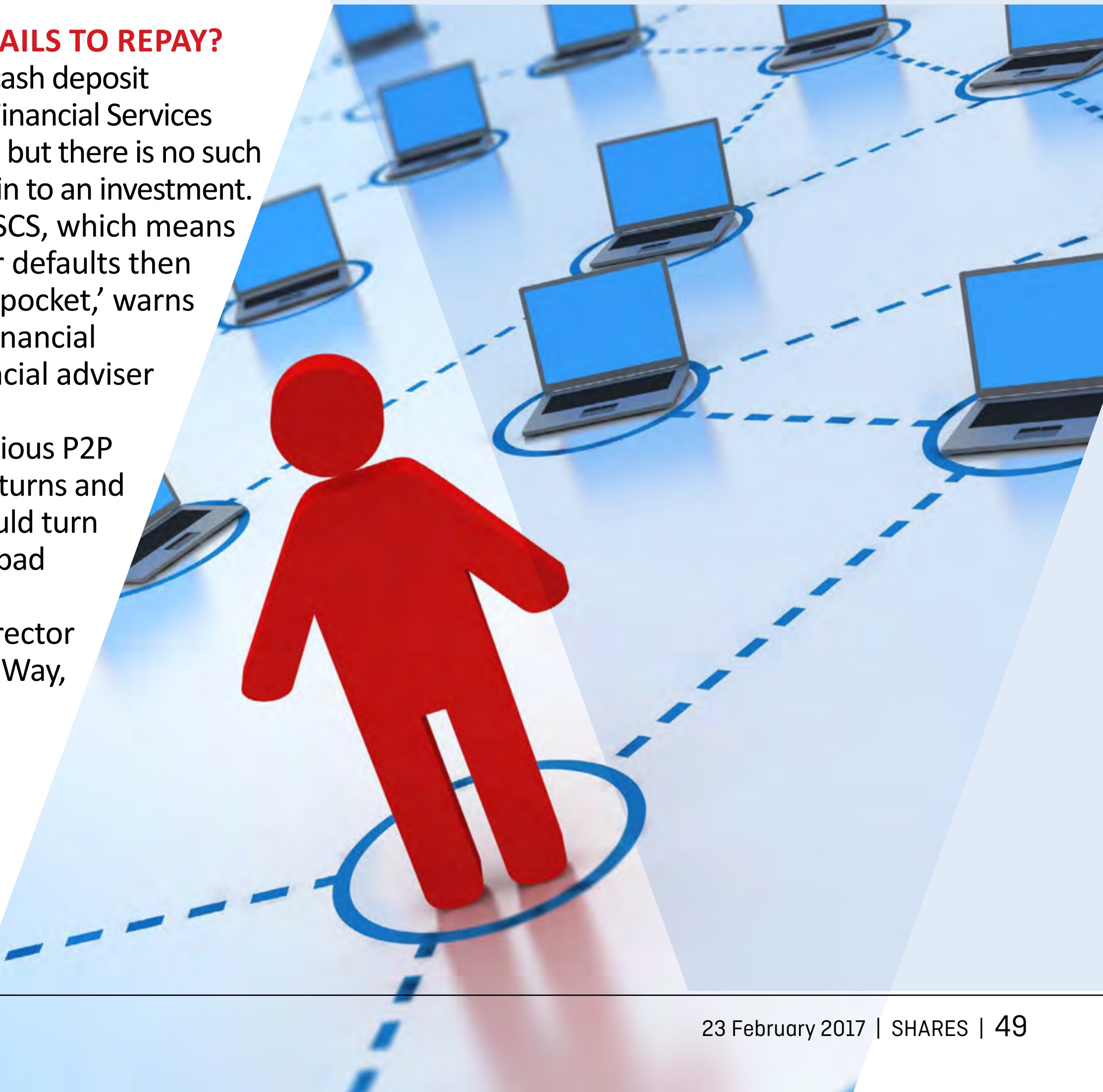
Neil Faulkner, managing director of the P2P ratings agency 4thWay, says his company rates each of the platforms based on stress tests that see how well individual lenders might perform during a very severe recession. 'The platforms with the highest ratings are Funding Circle, Landbay, Lending Works, Proplend, RateSetter and Zopa.'

He advises investors to check whether their P2P provider focuses on either very high quality borrowers or on fantastic security and that they are transparent about their statistics, particularly about bad debts.

The Financial Conduct Authority – the UK financial regulator – is currently carrying out a review of the P2P industry following high profile scandals in the US and China, and it is likely that this will result in greater regulatory scrutiny in the future.

Interest on P2P loans is paid gross but is taxable and has to be declared on your tax return unless you invest using an Innovative Finance ISA.

These allow you to pay in up to £15,240 in the current tax year – rising to £20,000 from 6 April 2017 – with many P2P platforms hoping to launch these accounts over the coming months. Landbay and Lending Works have already launched their Innovative Finance ISAs. (NS)



DON'T DITHER IF YOU WANT 30% INSTANT RETURN

INVESTORS ARE RACING TO TAKE PART IN VENTURE CAPITAL TRUST (VCT) OFFERS

Investors have rushed to put money into venture capital trust (VCT) offers this year. We believe they have been snapped up by higher-rate taxpayers looking for a tax-efficient place to put their money having exhausted their pension allowance.

While a good handful of offers have already closed, there are still a wide range of products available at the time of writing.

Venture capital trusts are funds that allow investors to claim up to 30% income tax relief on up to £200,000 invested in VCTs per year. You need to hold the investment for at least five years, but any dividends will be tax free and you will have a capital gains exemption on disposal.

The generous tax benefits associated with VCTs compensate for high level of risk associated with investing in these products, particularly those which put your money into privately-owned, early-stage firms.

WHY HAVE VCTS SOARED IN POPULARITY?

The Government has imposed a £1m 'Lifetime Allowance' on pensions. This is the amount of money you can put into your pension before a 55% tax rate kicks in when the excess is withdrawn as a lump sum; or 25% tax when taken as income (such as buying an annuity).

Someone could have easily amassed a pension worth £1m if they had a good savings habit from a young age. VCTs are seen a viable way of avoiding additional tax payments for those fortunate enough to have a nice retirement savings pot.

WHAT'S ON OFFER?

At the time of writing there were 12 VCT offers still open for application. Minimum subscription tends to either be £3,000 or £5,000 depending on the product provider.

The money raised by VCTs each year is primarily used to invest in new additions to a portfolio, according to Stuart Lewis, head of tax efficient investments at VCT provider Octopus.

He says Octopus is different to the peer group as it uses a large chunk of each year's new money to provide more finance to existing investments. 'Most VCTs only invest on a deal by deal basis,' he adds.

Octopus Titan VCT is raising significantly more money than other VCTs this year with a target of £120m. It has already secured two thirds of this money, so why doesn't it set the goal even higher if there is strong demand for VCTs?

'We are mindful of raising the right amount of money and not have a cash drag,' says Lewis. 'We see a lot of prospects but only do about six to 10 seed investments a year. The rest of the money is to help existing investee companies grow.'

It can often take five years for an early-stage company to reach the stage where it is either ready to be acquired or floated on a stock exchange – two liquidity events that help VCTs crystalise value in their investments.

A LOT TO PROVE

Pembroke is considered the 'new kid' in the VCT space as its product has only been going for three and a half years, according to managing director Andrew Wolfson. Its limited track record is perhaps one reason why it has only raised £4m out of a targeted £15m for its VCT B Share offer.

The VCT provider's portfolio has a bias towards consumer-facing business including the UK operations of burger chain Five Guys and juicing firm Plenish.

Wolfson sees plenty of opportunities for new investments, claiming that small businesses need venture capital support as they can't get working capital finance from banks even though the latter have plenty of money available to lend.

'Pembroke's team are experienced private equity investors,' comments wealth manager Killik & Co. 'However Pembroke is a new venture and there is no guarantee that performance can be replicated on the VCTs.'

In contrast, Octopus can point to numerous examples where it has made decent profit on its VCT investments. The fact some of its investee companies have subsequently been acquired by Amazon, Google, Microsoft and Twitter helps to attract entrepreneurs who view Octopus as the ideal partner, claims Lewis.

THERE ARE THREE MAIN TYPES OF VCTS

1. Mainly invests in unquoted companies – so this is your chance to get a slice of potential 'next big thing' businesses.

2. Invests in qualifying AIM-quoted companies – similar to a traditional small cap fund, but with added tax benefits.

3. Limited life VCTs – these invest in qualifying businesses, typically via loan notes, in a way that is structured to return investors' capital after five years. This is essentially capital preservation with the tax reliefs providing the biggest part of the overall return.

INVEST AND REPEAT

Octopus says its track record often means it works with the same entrepreneurs over and over.

For example, it is backing the same team behind LoveFilm (now part of Amazon's film service) and Graze snacks business for the third time with tailor-made dog food seller Tails.com. All three have the same model of using the internet to accept orders and delivering by post.

VCT OFFERS STILL OPEN

PRODUCT	FUNDS SOUGHT	FUNDS RAISED SO FAR*
Albion VCT	£34m	£32m
Amati VCTs	£8m	£4m
Downing Four - Generalist	£20m	£3m
Downing Four - Healthcare	£10m	£2m
Elderstreet VCT	£10m	£5m
Foresight VCT	£20m	£4m
Hargreave Hale AIM VCTs	£20m	£13m
Octopus AIM VCTs	£9m	£3m
Octopus Apollo VCT	£20m	£9m
Octopus Titan VCT	£120m	£80m
Pembroke VCT B Shares	£15m	£4m
Triple Point Income VCT E Shares	£15m	£7m

Source: Tilney / Bestinvest / Shares *As of 20 February 2017

VCTs can be a good way to get exposure to tomorrow's next big companies. However, it seems inevitable there will always be some casualties in the early-stage company space. Even Octopus isn't immune from failures.

Booking platform Yplan was last year acquired by **Time Out (TMO:AIM)** for a small fraction of the money pumped in by its venture capital backers, including Octopus.

WHAT ELSE IS ON OFFER?

Amati and Albion both still have 'live' offers for their VCTs, so too Hargreave Hale whose product invests in AIM stocks.

'We rate the Hargreave Hale management team highly and think this offering provides a useful way to diversify a long-term VCT portfolio with quoted AIM investments,' says Killik.

VCTs can only buy new shares in a company and not existing stock that already trades on the market. Therefore they must either buy AIM-quoted shares when a company first joins the stock market or when it raises additional money by issuing new shares.

Qualifying AIM companies need to be a proper business making stuff or providing a service – activities like investing in property wouldn't count, for example. Furthermore, there are rules about the age of a business and the size of its assets – once they reach a certain point, a VCT can no longer buy new shares.

The beauty of AIM VCTs is that they can sell holdings on the open market, unlike generalist VCTs which may be stuck with an investment in an unquoted company until they can a) find a buyer for the investment b) the investee company is taken over, or c) the investee company floats on a stock market.

A portion of new money going into Hargreaves' VCT is expected to be invested in the group's **Marlborough Special Situations (GB00B907GH23)** fund, says Killik. This will enable it to obtain initial exposure to small companies and avoid a cash drag, pending new investment in qualifying companies.

Other VCT offers still open to investors include technology-focused Foresight; and Triple Point Income which targets businesses with predictable revenue streams and strong asset bases. (DC)

HOW TO BUY AND SELL

INVESTORS SHOULD buy any type of VCT direct from the fund manager or a specialist VCT broker during the offer periods to get all the tax benefits. You can buy VCTs on the open market (also known as the secondary market) but you would lose the 30% income tax relief.

And don't forget the VCT rule that you lose the tax benefits if you sell before the first five years of ownership is up.

If you do sell before the first five years is up, you would need to tell the taxman HMRC and reimburse the relevant income tax relief amount.

Some VCT providers offer to buy back shares at a 5% to 10% discount to net asset value.

If you liked Booker, you'll love Conviviality

Here's why we think the drinks distributor won't be damaged by Tesco's new competitive threat

Investors in food wholesaler **Booker (BOK)** not convinced by the merits of its £3.7bn shares and cash takeover by **Tesco (TSCO)** should switch into **Conviviality (CVR:AIM)**.

The drinks wholesaler and franchised off-licence operator looks an ideal alternative to Booker and provides exposure to similar end markets. It has compelling cash generation and income characteristics, as we now explain.

VASTLY IMPROVED NUMBERS

Conviviality's half year results published on 31 January 2017 illustrate how the business has changed over the past year.

Pre-tax profit was 295% higher at £15.4m on a sales surge to £782.5m (H1 2016: £252m).

This reflected the transformation of the business through two significant acquisitions. It bought the UK's largest drinks distributor to the on-trade, Matthew Clark; and wines and spirits wholesaler Bibendum.

These deals are already delivering cost synergies and cross-selling benefits, with the numbers also buoyed by robust organic growth.

Conviviality reported positive like-for-like sales in retail, where it trades as Bargain Booze, Bargain Booze Select Convenience and Wine Rack, for the six weeks ended 1 January 2017.

Management also doubled the interim dividend to 4.2p which signals strong confidence in Conviviality's future cash flow.

IS TESCO/BOOKER A MAJOR THREAT?

At this stage, it is hard to determine how much of a competitive threat Tesco/Booker will specifically present

to Conviviality.

Booker is a wholesaler and distributor like Conviviality, but has a bias towards food, household goods and catering rather than alcohol, where Conviviality is a leading player.

Conviviality's chief executive Diana Hunter stresses the competitive advantage of the business: 'As a result of the acquisitions of Matthew Clark and Bibendum PLB we are now in a truly unrivalled position.'

She says the business has access to over 25,000 restaurants, hotels, bars in the UK; over 700 franchise retail outlets; and approximately 400 independent specialists.

Conviviality also serves major supermarkets drawing from more than 10,000 alcohol products sourced globally from specialist producers and brand owners.

For the retail division, the combination of Booker's Premier, Londis and Budgens convenience brands with Tesco's One Stop will give enlarged Tesco greater buying power and the ability to hold down prices. That is cause for concern in a part of the sector where operating margins are skinny at best.

We believe off-licence Bargain Booze should be able to more than hold its own.

MORE REASONS WHY CONVIVIALITY WILL SURVIVE

An alcohol specialist rather than a general convenience store, its low prices will chime with cash-strapped consumers if the economy turns down. Conviviality's reliance on Bargain Booze as a profit centre has also been reduced through its acquisition-led expansion.

Post-Bibendum, Conviviality supplies Tesco with fine wines through its PLB brand agency business. It will be tough to unseat, since this is a specialist category in which Booker does not currently play.

Conviviality's Catalyst business, an agency for spirits and brand owners to help them increase product distribution, also currently supplies Booker and Tesco.

Broker N+1 Singer is reassuring: 'The fundamental point is that Conviviality has significant capabilities in consumer insight, sourcing, ranging and supply that can add value to its customers by reducing the complexity of the wine category in large multiple national chains.

'This expertise is valued by the likes of Tesco/Booker and we thus do not envisage the proposed tie-up as having a major negative impact on the relationship.'

LOOKING CHEAP

In addition, the deal serves to highlight how Conviviality is undervalued by the market.

Booker is being taken over on a prospective price to earnings multiple of 24.5 times and an EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) of 16.7 times.

For the financial year to April 2017, N+1 Singer forecasts pre-tax profits of £46.1m (2016: £21.7m) for earnings of 21.2p, placing Conviviality on an undemanding prospective PE of 12.8, a material discount.

Forecast to pay a 12.6p

dividend, supported by forecast free cash flow of £32.1m, Conviviality offers a yield north of 4.6%. Dividends of 13.6p and 14.4p are predicted for 2018 and 2019.

Zeus Capital sees an 'intrinsic value' of 380p for Conviviality, arguing the current valuation fails to fully reflect its size and influence in the UK drinks market.

Meanwhile, Investec Securities reiterates its 'buy' rating and has raised its price target from 280p to 300p, 'reflecting increased visibility in delivery of synergies and falling execution risks'.

We believe the shares will keep rising so long as Conviviality can secure further market share gains and deliver on the cost synergies promised following its ambitious M&A moves.

SHARES SAYS: ↗

We're positive on Conviviality at 272.25p for its robust cash flow and the compelling read across from the Tesco/Booker merger valuation. (JC)

BROKER SAYS: 4 0 0

Strong cash flow is the secret to a great company

Liontrust fund manager reveals how he picks European winners

Uncertainty hangs over the future of post-Brexit Europe, where key elections offer potential for further shocks in 2017. Nevertheless, the continent is home to some world class companies generating growth and strong cash flows in the face of current political and economic turbulence.

One fund that seeks out such star turns through a proven and distinct investment process is **Liontrust European Growth (GB00B4ZM1M76)**, which recently celebrated its 10-year anniversary.

The £77.8m unit trust invests in a concentrated and equally weighted portfolio of companies from developed continental Europe using Liontrust's 'Cashflow Solution' process.

WHAT DO THE FUND MANAGERS LOOK FOR?

Managers James Inglis-Jones and Samantha Gleave believe the most important determinant of shareholder returns is company cash flow.

They hunt for companies that generate significant free cash flow from their asset base. They also want firms which are lowly valued on their cash flow and run by management who 'allocate their cash flow in an intelligent way'.

Cash flow relative to operating assets and cash flow relative to enterprise value are two measures which tell Inglis-Jones how much a company generates on its investments and how investors are valuing its cash flow.

'Good' businesses will have high returns on cash invested and a low requirement for substantial investment. They will also have high cash flow relative to their market value, priced cheaply as expectations for their profit growth are low among investors.

CREATING A BEST BUY LIST

Inglis-Jones' process enables him to identify the best 20% of stocks in his universe to create a 'top quintile' list of possible buys.

'What is great about the Cashflow Solution process is you get a huge variety of businesses and sectors in the top quintile and that gives you a more consistent return,' enthuses Inglis-Jones.

'The big difference between us and the peer group is the equally weighted approach to constructing the portfolio.'

He seeks to understand how cash flow has been generated and to be sure there is a cash flow culture in the business.

'It is a childishly simple process really,' says the modest Inglis-Jones, whilst stressing that on a 10-year view 'we've delivered more than double the return of the market'.

WHAT'S THE OUTLOOK FOR EUROPEAN STOCKS?

The fund manager says he holds an upbeat assessment of the outlook for European equities

'WE DON'T SPEAK TO ANY BROKERS AT ALL AND I RARELY READ THEIR RESEARCH'

this year. He is cognisant of the need to limit exposure to some extreme valuations being afforded to stocks meeting certain investment characteristics.

His investment process steers clear of companies with very high forecast earnings growth. 'In our view, mispricing of stocks often stems from overconfidence in forecasts of future profitability made by company managers and sell-side brokers, which often turn out to be unreliable,' he comments.

'We don't speak to any brokers at all and I rarely read their research. It is all geared towards a forecast view of the future, whereas we are focused on what cash we can see in the business here today,' adds Inglis-Jones.

He avoids companies whose cash flow scores are deteriorating or which are too highly valued, as well as high growth companies that are not generating enough cash to support their growth plans.

When it comes to portfolio disposals, stocks are sold if they fall out of the top quintile in his scoring system.

IS THIS A FOOLPROOF SYSTEM?

There are certain market conditions when the process will temporarily struggle. However, Inglis-Jones never wavers in applying the Cashflow Solution Process.

'If a process works all the time everyone would soon adopt it and it would lose its potency. A good investment process is sustained by the fact that from time to time it does not perform that well,' he says. 'This causes some people to abandon the approach which serves to sustain the anomaly.

'Investors need to know it's also a commonplace feature of successful funds – a fact highlighted recently by a US study by Joel Greenblatt that showed that for top quartile funds over 10 years, 80% of them had spent at least three of that 10 year period in the bottom quartile.'

WHAT'S IN THE PORTFOLIO?

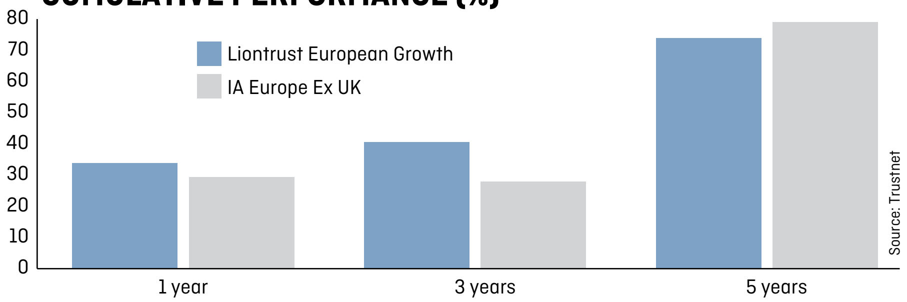
High-quality names in the portfolio include Swedish beauty product retailer Oriflame, which operates akin to 'the Avon ladies of Eastern Europe'. The fund manager says it is a cash flow growth stock. 'Oriflame has forecast turnover growth of 8% over the next couple of years. On book value, it looks very expensive, but it generates huge amounts of cash from the asset base.'

Another cash flow star turn is Nexans, a French cable manufacturer that is valued at not much more than its book value.

Recent value picks in the energy and financial sectors include Swedish oil and gas explorer and producer Tethys Oil and Italian bank Mediobanca, the latter 'in the top quintile on the cash flow screen, looking very cheap on cash flow measures and yet shunned as the sector is so disliked'.

Inglis-Jones has also topped up the fund's position in Deutsche Pfandbriefbank following recent price weakness and added another banking stock in Svenska Handelsbanken. (JC)

CUMULATIVE PERFORMANCE (%)



LIONTRUST EUROPEAN GROWTH:

TOP TEN HOLDINGS	
Actelion	4.3%
Granges	3.6%
Oriflame	3.5%
NKT	3.2%
Atlas Copco	3.1%
Tethys Oil	2.9%
Partners	2.9%
Nexans	2.8%
DFDS	2.8%
Amadeus IT	2.7%

Source: Liontrust, data as of January 2017

OTHER EUROPEAN FUNDS TO CONSIDER

- Marlborough European Multi-Cap
- Man GLG Continental European Growth
- FP CRUX European Special Situations
- Henderson European Growth
- Baillie Gifford European

WEEK AHEAD

FRIDAY 24 FEBRUARY

FINALS	
Coats	COA
IMI	IMI
Industrial Multi Property Trust	IMPT
Jupiter Fund Management	JUP
Kennedy Wilson Europe Real Estate	KWE
Pearson	PSON
Royal Bank of Scotland	RBS
Rightmove	RMV
Standard Life	SL.
Standard Chartered	STAN
TBC Bank	TBCG
William Hill	WMH

LAIRD (LRD)
Investors largely know what to expect in terms of the figures thanks to a comprehensive trading update in January, with revenue growth all down to currency tailwinds and acquisitions. Expect underlying pre-tax profit of about £50m. Net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) at around 3.5-times will be below the four-times level temporarily negotiated with its banks. An anticipated £185m right issue will cut that to about 1.6-times, say analysts, presuming the cash call goes to plan. A well-executed turnaround and connected vehicles are the main positive catalysts going forward.

MONDAY 27 FEBRUARY

FINALS	
Ascential	ASCL
Bunzl	BNZL
Dialight	DIA
FBD	FBH
Hiscox	HSX
Keller	KLR

ITV (ITV)
Free-to-air broadcaster ITV, one of our top share picks for 2017, is set to report its 2016 results on 1 March. Investors' focus may be directed more closely towards guidance on first quarter advertising revenue where the timing of Easter (March in 2016, April in 2017) could be unhelpful.

Persimmon	PSN
Rotork	ROR
Senior	SNR
INTERIMS	
Dechra Pharmaceuticals	DPH
TRADING STATEMENTS	
Associated British Foods	ABF
AGMs	
Mysquar	MYSQ

TUESDAY 28 FEBRUARY

FINALS	
Bodycote	BOY
Croda International	CRDA
Dalata Hotel	DAL
Derwent Londom	DLN
Elementis	ELM
Fresnillo	FRES
GKN	GKN
IWG	IWG
Jardine Lloyd Thompson	JLT
Johnson Service Group	JSG
Meggitt	MGGT
Moneysupermarket.com	MONY
Provident Financial	PFG
Sphere Medical	SPHR
Taylor Wimpey	TW
INTERIMS	
Go-Ahead	GOG
Redde	REDD
Swallowfield	SWL
Waterman	WTM
TRADING STATEMENTS	
Babcock International	BAB
AGMs	
Sage	SGE

WEDNESDAY 1 MARCH

FINALS	
Livanova	LIVN
Riverstone Energy	RSE

ASCENTIAL (ASCL)
Investors will be looking for further details on the $69m acquisition of US-based media advisory and business services provider MediaLink when events company Ascential reports its full year results on 27 February. There may also be an update on bookings ahead of the company's flagship advertising event, Cannes Lions, in June.

THURSDAY 2 MARCH

FINALS		
Arrow Global	ARW	
Convatec	CTEC	
Dairy Farm International	DFI	
Gocompare.com	GOCO	
Jardine Matheson	JAR	
Melrose	MRO	
Sportech	SPO	
AGMs		
Hidong Estate	HID	
Jersey Electricity Company	JEL	
Local Shopping REIT	LSR	
EX-DIVIDEND		
Murray Income Trust	MUT	7p
Park Group	PKG	0.95p
Standard Life UK Smaller Company	SLSC	1.75p
Sanderson	SND	1.4p
SSP	SSPG	2.9p

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KEY

- Main Market
- AIM
- Fund
- Investment Trust