STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

Summer Sizzlers

STOCKS WITH MOMENTUM BEHIND THEM AND A SUNNY OUTLOOK AHEAD

SELL OFF
WHAT NEXT AFTER MARKET VOLATILITY?

REBOUND
FUNDS HUNTING RECOVERY POTENTIAL

DREAM INVESTMENT? *WE TEST OUT MATTRESS BRAND EVE SLEEP*

Shell goes electric

Will strategy shift from oil major lead to boos or applause

In last week's *Editor's View* we mentioned Trump as a possible catalyst for a summer sell off and so it is proving.

And having reached two month highs in late July crude oil prices have endured another round of volatility partly inspired by the spat between North Korea and the US.

Oil often appears to be a vehicle for the market to express its view on the economic and political backdrop. Understandably given the role it plays in fuelling the world economy.

WHAT ARE THE LONG-TERM PROSPECTS FOR OIL?

For now markets have calmed down, although the resulting rebound in the dollar and signs of slowing demand in China have not proved helpful to crude in the interim. As we write the global benchmark for oil, Brent, is holding just above $50 per barrel while its US counterpart West Texas Intermediate trades at around $47.

This author has generally held to the view that a combination of two factors will provide support to oil prices in the long-term. First the world still needs oil and lots of it. It remains the main way we power transportation and is used in the production of plastics and insulation products and for heating.

Second it is a finite resource and while technology may eventually unlock reserves which are beyond the reach of the world's oil producers today, we will run out eventually.

A growing middle class in India and China buying their own cars has long been seen as a driver of oil prices but growing momentum behind a shift to electric vehicles could challenge this orthodoxy.

ELECTRIFYING THE DEBATE

In July Volvo pledged that all cars will be electric or hybrid by 2019 and regulation in the EU and other major geographies is pushing other car manufacturers in this direction.

How will the oil and gas majors, companies like **BP (BP.)** and **Royal Dutch Shell (RDSB)** in the UK, respond if a key source of demand for oil disappears?

This matters to most investors given the contribution these two companies make to the total dividend from the FTSE 100. According to the latest *Dividend Monitor* report from Capita Asset Services, oil, gas and energy stocks accounted for more than 12% of the available dividend income from the index in the second quarter.

Shell appears to be increasingly preparing itself for an electric future. Chief executive Ben van Beurden says his next car will be electric and the Anglo-Dutch firm has announced from early next year it will sell electricity to industrial customers in the UK, including to its own 600 domestic sites. There is talk of rolling this plan out to North America too.

It may be too early to predict the death of fossil fuels but if Shell is planning for a low carbon future it is something to think about at least and a reminder to keep an open mind about future economic and market developments. (TS)

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IMPORTANT

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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.

Big trouble for big ticket retailers

Near-term outlook for non-food retailers is negative

Falling real wages, faltering consumer confidence and imported inflation are now having a big impact on appetite for big purchases. British shoppers are tightening their belts, meaning the near-term outlook for purveyors of furniture, white goods and even motor cars is increasingly uncertain.

SITTING (INCREASINGLY) UNCOMFORTABLY

On 15 June, living room furniture leader **DFS Furniture's (DFS)** share price cratered on a profit warning that spooked the retail sector, material downgrades ensuing as DFS explained that trading had 'weakened beyond our expectation'.

Subsequently, cash-generative made-to-order sofas seller DFS, which has announced the acquisition (3 Aug) of rival Sofology, has issued a second mild warning (10 Aug), cautioning earnings for the year ended 29 July will now be at the low end of the previously downgraded £82-£87m range.

Second half revenue disappointed owing to 'significant declines in store footfall and customer orders across April, May and June', blamed on general election jitters and economic uncertainty, exacerbated by warm weather in May and June.

SCS AT THE SHARP END

Rival sofas seller **ScS (SCS)** is also at the sharp end of this faltering consumer confidence, having reported (9 Aug) a 5% drop in like-for-like orders in the second half of the year amid softer market conditions.

With consumers deferring spend on big ticket items, ScS' like-for-like order intake for the year to 29 July eased off 0.7%, although CEO David Knight stressed impressive two year like-for-like order intake growth of 14.3% and assured ScS' traded in line with expectations for the 52 weeks ended 29 July.

THE DIXONS DEBATE

Shares is sticking with our positive stance on another big ticket specialist, **Dixons Carphone (DC.)**. Shares in the electricals-to-mobile phones retail giant crashed following a savage downgrade (11 Aug) from 'outperform' to 'underperform' with a 230p price target by Exane BNP Paribas.

The note highlighted unhelpful structural trends in the UK mobile phone market and also questioned Dixons' quality of earnings, particularly its recent changes to revenue recognition around insurance and warranty sales.

Shares in the *Carphone Warehouse-to-Currys PC World* brand owner have de-rated sharply on concerns about mobile profitability, director share sales and broader concerns about the UK economy.

Yet joint broker Deutsche Bank has issued a buy note and reiterated its 400p price target, seeing a number of levers which can be pulled to control profitability. Deutsche expects a reassuring first quarter update next month (7 Sep). It forecasts robust 4% like-for-like growth in Dixons Carphone's core UK business that could foster more positive sentiment towards the stock. (JC)

Telit trauma continues amid CEO drama

We look at the fall out as chief steps down amid questions over US indictment

The chief executive of connectivity kit designer **Telit Communications (TCM:AIM)** is stepping down from the board after it emerged he had previously been indicted in the US.

Shares in the Internet-of-Things specialist are bouncing back at 135p after Oozi Cats resigned with immediate effect, on hopes the move could mark a turning point for the business. Telit revealed an indictment against Cats had been 'knowingly withheld' from advisers at the firm.

Source: www.telit2market.com

Telit said 'it is a source of considerable anger' that the charge had not been disclosed and it had 'only been made aware of its existence through third parties'.

INVESTIGATION LAUNCHED

The firm launched an investigation last week to assess whether Cats, who has led the firm since 2000, was the same Uzi Katzi who had been accused of wire fraud in Boston in 1992.

It is reported that he and his wife, Ruth V. Katz, were accused of 'flipping' properties to take out mortgages with inflated values.

The allegations come just days after Telit's share price collapsed. Shares fell from 257.5p to 100p after the business slashed its dividend, cut growth targets and revealed it had plunged into the red in its half year results (7 Aug).

Yosi Fait is acting as interim chief executive officer and will conduct a review of the company's activities and costs. The firm said it was 'moving on from this difficult situation' and was confident in the strategic and operation strength of the business.

Telit said it would appoint three additional non-executive directors, one of whom will become

> IT IS A SOURCE OF CONSIDERABLE ANGER THAT THE CHARGE HAD NOT BEEN DISCLOSED.

chairman. The company also dismissed speculation over its financial condition, trading performance and business relationships as having 'no substance'. The firm said it 'stands behind the group's audited accounts to 31 December 2016 and the most recently published interim statement'.

ISRAELI FIRMS DISAPPOINT

Telit is the latest in a string of Israeli tech firms to disappoint investors. Earlier this year artificial intelligence business Adgorithms – which has since changed its name to **Albert Technologies (ALB:AIM)** – revealed revenue dropped 26% in 2016 and the firm was $7.9m in the red for the year, compared to a loss of $2.2m a year earlier. The company also warned on profit shortly after joining the market in 2015. The shares are down 80% on their issue price at 27p

Albert Technologies says its research and development expenses more than doubled to $5.1m while sales and marketing costs leapt from $950,000 in 2015 to $4.1m in 2016.

But there are some success stories coming from the region; earlier this month US company Intel bought Israeli business Mobileye, which specialises in autonomous driving technology. Intel paid $15.3bn for the firm as it ramps up its focus on driverless cars. (HB)

Mears reassures after Grenfell-related delays

Mears contracts held up due to safety concerns following tragedy

Housing contractor **Mears (MERS)** is being been hit with delays to its contracts following the Grenfell Tower tragedy in June. This has brought expected revenue for 2017 down to £800m from £830m while analysts at Liberum have revised the company's order book down to £2.8bn from £3.1bn.

The company's chief executive David Miles tells *Shares*, 'the order book is unaffected, work is not been taken away from us and given to another contractor'. The delays are due to clients of the company including registered social landlords (RSL) being 'extra careful' in Miles' words when it comes to safety.

For instance residents of the Ledbury estate in Southwark, South-east London were moved out earlier this month due to gas safety fears.

Order book down to £2.8bn from £3.1bn

As Southwark is one of Mears' clients, it's unlikely that maintenance work will be done while the building remains empty.

Miles also says the government has told RSLs that in the next 13 weeks, which he expects to be extended to six months, to declare every one of their properties is safe. If they can't deliver safe accommodation they may be forced to outsource or sell housing stock.

The company hiked its dividend by 5% to 3.45p a share in the six months to 30 June. 'You may lose a bit of turnover or profit but we're still putting the dividend up by 5%. I hope it's clear message, I haven't lost the work, it's just delayed,' says Miles. (DS)

H&T 'changing the face of pawnbroking'

DESPITE THE GOLD price aiding pawnbroker, personal loan provider and watch retailer **H&T (HAT:AIM)**, the company's chief executive John Nichols says he's 'changing the face of pawnbroking'.

He adds that while pawnbroking is majority gold-based, H&T has widened the portfolio away from the precious metal. The company is looking at a whole basket of products that people can lend against including smart phones and tablets, which Nichols says is the younger generation's 'currency'. (DS)

Menzies and DX deal off

LOGISTICS AND aircraft services company **John Menzies (MNZS)** is pulling out of deal to sell its distribution business to AIM-quoted **DX (DX.:AIM)**.

The companies had been working on the transaction for six months and according to John Geddes, corporate affairs director at Menzies, there was 'strong strategic logic' to the combination.

However a profit warning from DX in July caused Menzies to look at the finances again. The board concluded on 15 August it would not proceed. (DS)

UK inflation undershoots again

THE RATE OF UK inflation did not increase as expected and remained at 2.6% in July against expectations of a rise to 2.7%. The second month in row that prices rose less than expected.

Analysts believe the latest data will reduce pressure on the Bank of England's (BoE) interest rate-setting committee to boost rates, despite inflation being higher than the 2% target. (LMJ)

Dividend potential flagged at Clarkson

Cash rich shipping group can increase payout and invest in the business

Shipping services provider **Clarkson (CKN)** is planning to drive shareholder returns by investing in the business, despite difficult shipping and offshore markets but should have money left over to distribute to shareholders too.

Clarkson is lining up spending across the group, particularly in its ship broking and finance divisions, and is focusing on improving its technology to increase operational efficiency.

The company is well positioned to sanction this expenditure as it is now debt free and has net funds of £71.4m at its disposal.

Panmure Gordon analyst Colin Smith says the company should also be in a position to drive a big increase in its dividend.

Smith speculates the company will boost the full year dividend by 8% to 70p in the year to 31 December 2017.

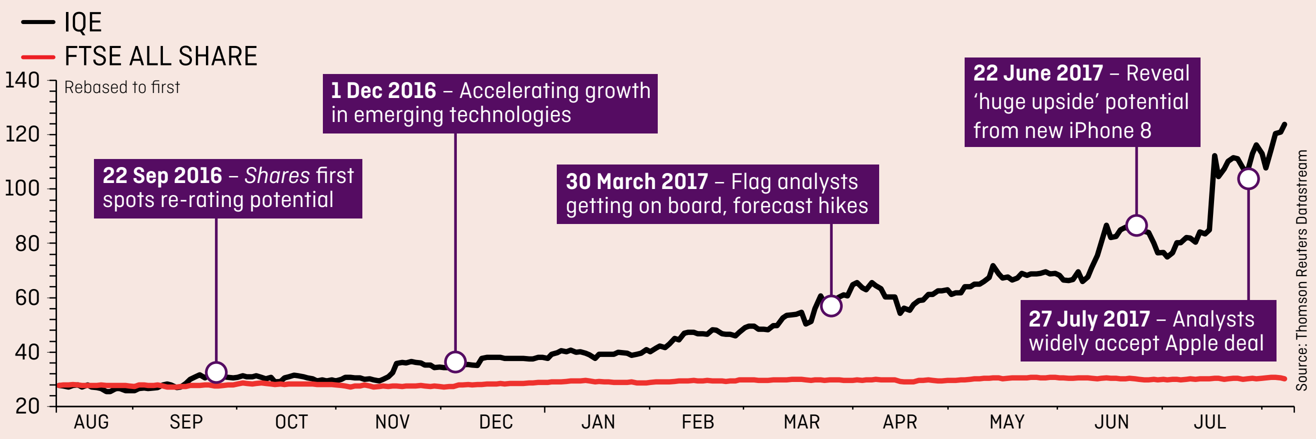
Clarkson has faced a challenging backdrop since the demise of US financial firm Lehman Brothers during the financial crisis, hitting demand when the supply of new ships increased. This situation is starting to reverse.

In 2016, global new building orders for vessels over 20,000 deadweight tonnage hit a new low of 217 compared to 1,874 orders in 2008. (LMJ)

318% up and still going

SHARES IN **IQE (IQE:AIM)** have caught fire in 2017 on a wave of exciting commercial breakthroughs. The stock closed out 2016 at 37.75p on 30 December only to soar to 126.5p records on 10 August. That's a stunning 231% gain in less than eight months.

The Cardiff-based company develops specialist semiconductor compounds used in wireless communications and, increasingly in future, for emerging technologies, such laser-based photonics and infrared technologies. *Shares* has flagged this emerging growth story right from the off, first 30.25p in September 2016, long before the share price reaction, and multiple times since. That implies and even more staggering 318% paper profit in under a year.



ODEY ENTHUSIASM FOR SKY BID WANES

HEDGE FUND MANAGER Crispin Odey is pondering dropping his support for 21st Century Fox's bid to buy **Sky (SKY)** on the basis the £11.7bn bid undervalues the pay-TV broadcaster. Odey is only the 15th biggest shareholder in the company with a stake of 1%, but if further support erodes off the back of continuing regulatory delays then the deal could conceivably collapse even if it gets the belated backing of the authorities.

STANDARD LIFE PROFITS RISE JUST AHEAD OF MERGER

INSURANCE AND ASSET manager Standard Life enjoyed a 6% jump in profits for the first half to 30 June just ahead of its £11bn merger with Aberdeen Asset Management.

Operating pre-tax profits hit £362m, higher than analysts expected despite investors pulling out £3.7bn worth of assetes during the six months.

The question is how will the new entity **Standard Life Aberdeen (SLA)** cope with the pressure from low cost passive funds?

GAMING MACHINES LIMIT LIKELY

RESEARCH FROM CREDIT Suisse suggests there is an increased chance the Government will slash the maximum stake for fixed odds betting terminals from £100 to £2 in a review later this year. This could mean a big hit to profitability at bookmakers **William Hill (WMH)** and **Ladbrokes Coral (LCL)**. The investment bank quantifies this as a 40% hit to profits at William Hill and 50% at Ladbrokes Coral.

DECADE SINCE FRENCH BANK FUND FREEZE

IT IS NOW 10 years since the event which for many marked the onset of the financial crisis. On 9 August French bank BNP Paribas moved to freeze redemptions from three funds with interests in collateralised debt obligations (CDOs) which it realised it could not value. CDOs were the vehicles which were used to package up and sell on sub-prime loans as premium-rated debt. Fears have been raised in 2017 that sub-prime car finance deals could be the catalyst for another crisis.

BEST PERFORMING SECTORS
YEAR TO DATE

Company	Share price gain
FTSE 350 Industrial Metals	38.2
FTSE 350 Personal Goods	29.9
FTSE 350 Forestry & Paper	20.8
FTSE 350 Electronic & Electrical Equipment	20.5
FTSE 350 Beverages	19.8
FTSE 350 Nonlife Insurance	18.3
FTSE 350 Household Goods & Home Construction	15.9
FTSE 350 Financial Services	15.4
FTSE 350 Health Care Equipment & Services	11.2
FTSE 350 Industrial Engineering	11.1

Source: SharePad

WORST PERFORMING SECTORS
YEAR TO DATE

Company	Share price loss
FTSE 350 General Retailers	-3.36
FTSE 350 Construction & Materials	-4.42
FTSE 350 Media	-4.47
FTSE 350 Automobiles & Parts	-4.52
FTSE 350 Food & Drug Retailers	-5.09
FTSE 350 Pharmaceuticals & Biotechnology	-6.56
FTSE 350 Oil & Gas Producers	-8.5
FTSE 350 Electricity	-9.79
FTSE 350 Fixed Line Telecommunications	-18.3
FTSE 350 Oil Equipment, Services & Distribution	-30.7

Source: SharePad

Greggs expansion still has legs

Feast on food-on-the-go retailer for growth and tasty capital returns

Investors seeking a tasty growth and income stock for uncertain times should snack on bakery food-on-the-go retailer **Greggs (GRG)**. *Shares* believes the affordable sausage rolls-to-sandwiches seller can expand its estate significantly, while self-help measures should help sustain its run of strong like-for-like sales momentum.

GREGGS BUY
(GRG) £11.77
Stop loss: 941.6p

Market value: £1.18bn

TASTY OPPORTUNITY

Under CEO Roger Whiteside and since the fourth quarter of 2013, Newcastle-headquartered Greggs has generated 2%-plus like-for-like sales growth in every quarter, driven by its transformation from traditional baker into a food-on-the-go business.

Breakfast meal deals and savoury favourites provide the earnings ballast, although Greggs now offers a range of healthier products spanning sandwiches, salads, bakes and soups and has widened its sugar-free drinks range to tap into changing consumer preferences.

Greggs is already an established operator with a network of more than 1,800 branded UK food-on-the-go outlets. However, Greggs is adding new stores and believes it can expand its estate well beyond 2,000 UK stores in the medium term.

Not only is Greggs successfully shifting its exposure away from shopping locations and towards areas centred on work, travel and leisure, it also has low store coverage in England's south west and Northern Ireland and can therefore increase its shop numbers by high double digits over the coming years.

Key competitors (Subway, Costa Coffee) have significantly more stores, implying room for Greggs to expand, while a popular debut 'Drive-Thru' shop in Greater Manchester indicates a demand for further Drive-Thru locations.

Disposable incomes are softening, input costs rising and the food-on-the-go market is ultra-competitive. Yet Greggs looks well placed to cope given its value credentials as well as self-help measures including store refits and investments across systems and supply chain.

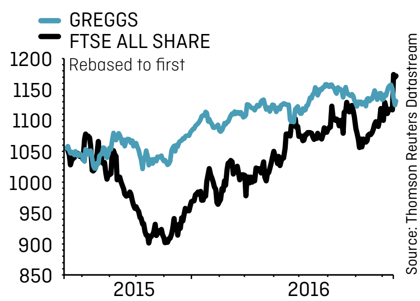
APPETISING RETURNS

Following strong first half results (1 Aug), which revealed positive 3.4% like-for-like growth and a good start to the second half, Berenberg upgraded (9 Aug) Greggs from 'hold' to 'buy' and upped its price target from £10.20 to £13.

For calendar 2017, Berenberg forecasts adjusted pre-tax profits of £81.4m (2016: £80.3m) and a 31.9p dividend, rising to £86m and 33.8p respectively in 2018. Greggs' strong cash generation and balance sheet support this progressive dividend, though the retailer has form with one off returns of capital too, having paid a £20m special dividend in July 2015.

Management targets £40m of net cash at year-end, but should this cash position rise materially north of this level, it will return capital to shareholders. Though given the supply chain investment underway, 2019 is likely to be the earliest point at which such a return will occur.

BROKER SAYS: 3 4 0



Non-Standard Finance's growth story in sub-prime

Non-Standard Finance is a expanding player in the sub-prime lending space that pays a healthy dividend

The speciality lender sector on the market is full of risks. Failure on the part of borrowers to repay loans being among the most prominent. But **Non-Standard Finance (NSF)** is a firm growing fast, consolidating the sub-prime lender market at pace.

Chief executive John van Kuffeler tells *Shares* the company mitigates the the risks of rising impairments by meeting the borrower in person.

Its Everyday Loan business, which is an unsecured branch based lender, is planning to open 53 new branches by the end of the year. This business interviews customers one-on-one, building a relationship and according to van Kuffeler, reducing the risk of impairments.

It is also increasing its focus on the guaranteed loans market, in which an approved third party backs the borrower.

The CEO was formerly the chair of beleaguered **Provident Financial (PFG)** and has capitalised on his former company's failure to revamp its home collection credit business. He's taken at least 400 agents who used to work for Provident, following the company's profit warning in June, decision to force its agents to become full-time staff and axe 2,000 jobs.

NON-STANDARD FINANCE
BUY
(NSF) 66.75p
Stop loss: 50p

Market cap: £211.63m

The business is well positioned for further M&A activity

BUY AND BUILD

The company is a consistent buy-and-build player, its latest acquisition is George Banco, announced on 3 August. The business is the second-largest player in the UK guaranteed loans market.

The deal is expected to complete next month and be earnings enhancing in its first year following completion. The business cost £53.5m.

JP Morgan puts a target price of 92p on the stock, implying 37.8% upside.

Non-Standard Finance achieved the unlikely double of increasing profitability while continuing to invest significant sums in the business when it released its half year to 30 June results recently. The firm's pre-tax profit improved by 26% to £5.4m, while earnings per share were up 15% to 1.35p.

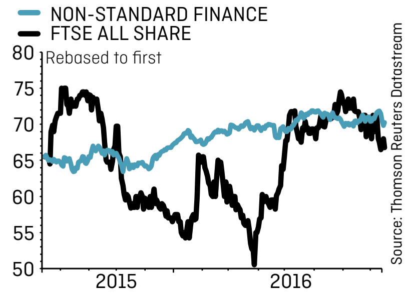
GROWING FOOTPRINT

The company currently has three brands in its stable - Everyday Loans, Loans at Home and TrustTwo - and is soon to add George Banco to that list. With £260m of debt capacity available according to house broker Shore Capital the business is well positioned for further M&A activity.

The UK sub-prime lending market remains pretty fragmented. It is estimated to serve around 10m people. Growth is slowing in the UK and disposable income is getting squeezed by inflation, this backdrop should be helpful to providers of alternative finance, most of which are also highly cash generative.

The valuation does not look too demanding. The shares trade on a forward looking price to earnings ratio of 12.8 using estimates from Gurjit Kambo, analyst at JP Morgan Cavenove. The prospective dividend yield is 3.5%. (DS)

BROKER SAYS: 2 0 0



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SIGNS OF
CONTINENTAL SHIFT

As political instability starts to fade in the eurozone, shares from the region can offer value, says portfolio co-manager **Stefan Gries**.

What is the outlook for financial services in Europe?
There are positive signs in that measures from the European Central Bank (ECB) are making it easier for eurozone banks[i] to lend[ii], although when we look at the businesses themselves, banks are making less money from loans than a few years ago. An increase in the base rate of interest would boost banking profits, but with inflation in Europe at 1.4%[iii], there is little pressure on the ECB to raise the base rate. Also, margins are eaten away quickly by competition; there are more than a thousand lending institutions in Germany alone[iv].

The banking sector is also one of those most likely to be affected by political volatility and so we are only invested in European banks we believe exhibit better profit trends and good capital reserves.

Are you positive about growth in continental Europe this year?
Yes, European earnings for the first quarter were very positive[v] and expectations for continued growth are good[vi]. The ECB has extended quantitative easing – which aims to manage inflation and incentivise growth by increasing the supply of money in the economy – until the end of 2017[vii]. Eurozone business confidence is at its highest level since 2011[viii] and consumer trends have been improving. Growth in Europe remains low, but much of Europe's business comes from outside the continent, so the region's success also depends on growth abroad. Please remember that past performance is not a guide to future performance.

What is your view on the price of shares for companies in Greater Europe?
Europe has underperformed the US market following the 2008 financial crisis[ix]. That potentially creates an opportunity to find good value European shares. After retreating from Europe in 2016, investors have begun to return to the region[x].

Have you been able to use political uncertainty and market volatility to your advantage over the past 12 months?
It is always difficult to say that a particular share was bought or sold as a result of politics. That said, some of the big political events over the past 12 months, together with rising inflation, have had an impact on share prices. French president Emmanuel Macron's 2017 election victory, for example, created a real chance for pro-growth reform. If successful, this could strengthen both the French economy and potentially the European project. With potential for greater political stability in the eurozone combined with gently growing confidence[xi], we believe Europe offers an attractive opportunity to investors at present.

All financial investments involve an element of risk Therefore, the value of your investment and any income from it will vary and your initial investment amount cannot be guaranteed.

To find out about the increasingly positive outlook for this region and to learn more about BlackRock's wealth of experience in Greater Europe, please visit **blackrock.com/uk/brge**

[i] ECB, the euro area bank lending survey, June 2017
[ii] ECB, the euro area bank lending survey, April 2017 (https://www.ecb.europa.eu/stats/pdf/blssurvey_201704.pdf?ae4008c7f33e40f7e4eed7ed48a5ad51)
[iii] Euro Stat, May 2017
[iv] Statista, 2008 to 2015
[v] BlackRock, European Equity Barometer Review, January 2017 (https://www.blackrock.com/uk/intermediaries/literature/newsletters/european-equity-barometer.pdf)
[vi] BlackRock, as above
[vii] ECB, March 2017
[viii] Trading Economics, May 2017
[ix] MSCI & Bloomberg, June 2017 (S&P 500 +221% in USD terms, Euro Stoxx600 +112% in USD terms – January 1 2009 to June 30 2017)
[x] Sentix, June 2017 (https://www.sentix.de/index.php/en/sentix-Economic-News/the-situation-in-euroland-continues-to-grow.html)
[xi] Lipper, outflows for European Equites YTD as at end of June 2017

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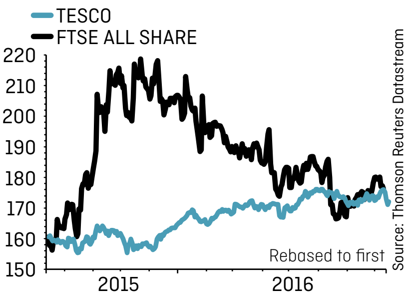
TESCO
(TSCO) 178.7p

Gain to date: 9%

Original entry point:
Buy at 164.45p, 25 August 2016

SUPERMARKET **TESCO (TSCO)** will soon drop out of our *Great Ideas* portfolio after the requisite 12 months. Performance has been up and down with shares hitting highs above 200p last autumn and trading as low as 166.5p in early July. We consider this turnaround tale to be one worth sticking with. Full year results (12 Apr) revealed good progress with the recovery at the nation's biggest supermarket, UK like-for-like sales growing 0.9%, the first reported full year growth for seven years. CEO Dave Lewis says Tesco is on track to achieve its 3.5%-to-4% operating margin target by 2019/20. Stronger cash generation and a drop in net debt means Tesco will also return to the dividend list in the 2017/18 financial year following a two year absence. A strong subsequent first quarter update (16 Jun) revealed a forecast-busting 2.3% hike in UK like-for-like sales and the latest Kantar Worldpanel grocery share figures (25 Jul) were positive for Tesco too. While the squeeze on consumer spending and cut-throat competition are risks to weigh, the planned £3.7bn takeover of **Booker (BOK)** will turn Tesco into the number one player in the domestic cash and carry market. This should help keep costs and prices down for longer than rivals and bring greater exposure to the growing 'out-of-home' food market.



SHARES SAYS: ↗
We remain positive. (JC)

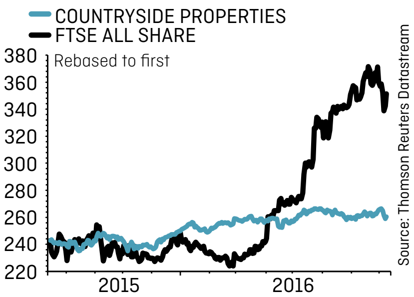
BROKER SAYS: 7 6 6

COUNTRYSIDE PROPERTIES (CSP) 355.2p

Gain to date: 18.1%

Original entry point:
Buy at 301.2p, 25 May 2017

A STRONG RECENT run for **Countryside Properties (CSP)** has helped it close the gap on the wider sector we identified when adding the shares to our *Great Ideas* portfolio in May 2017. Although we continue to like the business the backdrop looks more uncertain as house prices began to stall and amid reports the Government will withdraw the Help to Buy scheme earlier than expected. This initiative has been very supportive to the housebuilding sector. As we discussed in our initial article on Countryside its activity supporting housing associations and local authorities to regenerate public land provides some insulation from a wider downturn in the housing market. However, on balance we think it is worth booking some profit ahead of what could be a more difficult second half to 2017 for the housebuilders. The valuation case is now less compelling for Countryside. It trades on 10.4 times the September 2018 earnings per share forecast by investment bank Berenberg, roughly in line with its peers.



SHARES SAYS: ↘
We continue to like Countryside's model but see risks of second half weakness as sentiment towards the sector worsens. (TS)

BROKER SAYS: 4 1 0

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London - Thursday 7 Sept 2017

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Companies presenting

Jaywing Martin Boddy, Chief Executive
Jaywing is an agency specialising in the application of data science in digital marketing, risk and customer servicing. It employs approximately 600 people in the UK and Australia, one of ten of which is an experienced data scientist. It has a blue chip client base with unusually high levels of recurring revenues.
Increasingly, its focus is on developing data-led products to provide differentiation, fuel growth and increase margin. Its ambition is to distribute its products internationally allowing it to gain access to faster growing and less competitive markets whilst continuing to grow its UK agency business.

Sound Energy (SOU) James Parsons, CEO
Sound Energy is a well-funded African and European upstream gas company, with a recent significant discovery in Morocco, a cornerstone investor, a strategic partnership with Schlumberger (one of the largest companies in the sector) and a potentially transformational drill programme. James Parsons, CEO will provide an update on their licence areas and their move towards gas production.

Vipera (VIP) Martin Perrin, CFO
Vipera is a leading provider of mobile financial services platforms. The Vipera platform provides the easiest, fastest, most cost-effective way to develop and operate mobile data services. Solutions powered by Vipera run today on more than 500,000 phones, on hundreds of mobile networks in many countries. Founded in 2005, Vipera has offices in Zurich, Milan and London.

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chris.williams@sharesmagazine.co.uk
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RYANAIR

(RYA) €13.55

Gain to date: 35.7%

Original entry point:

Buy at €12.09, 25 August 2016

LOW COST AIRLINE **Ryanair (RYA)** continues to fly higher following a successful buyback programme and strong results in the three months to 30 June 2017.

Since we flagged Ryanair's potential, shares in the airline have rallied 35.7% to €18.55 (14 August), but its performance has been mixed through the summer due to Brexit and pricing competition concerns.

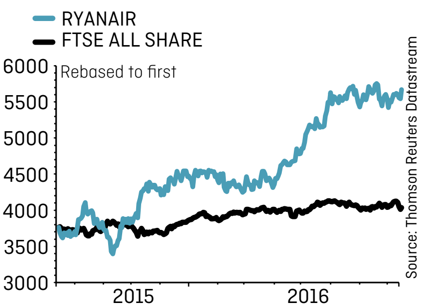
Last month, the airline reported a 55% increase in pre-tax profit to €397m thanks to a later Easter and a 1% rise in both average fares and ancillary revenues.

However, Ryanair reiterated that average fares are likely be cut by 8% in the six months to 31 March 2018 as competitive pricing starts to bite.

Further volatility was prompted by warnings of flight disruption between the UK and Europe if Britain does not remain in the European Union's (EU) Open Skies deal. This facilitates freedom of travel throughout the EU.

Despite these headwinds, we remain confident that Ryanair has more to offer thanks to its ancillary sales, which deliver 75% of the group's profitability according to Deutsche Bank's Anand Date.

Ancillary sales are generated from non-ticket sources such as baggage fees and on-board food and theoretically could support future profitability even if ticket prices continue to fall.



SHARES SAYS:

Keep buying at €13.55. (LMJ)

BROKER SAYS: 4 1 0

IBSTOCK

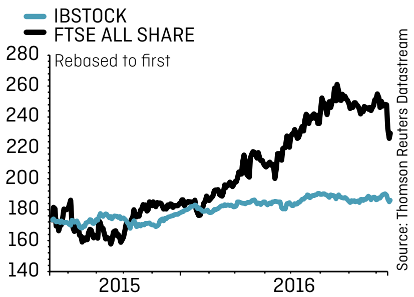
(IBST) 232.4p

Gain to date: 28.8%

Original entry point:

Buy at 180.5p, 26 January 2017

OUR POSITIVE CALL on brick manufacturer **Ibstock (IBST)** is being rewarded and first half results (10 Aug) suggest the momentum is being maintained. Revenue was up 9% to £228m and pre-tax profit before one-off items hit £43.3m, a 14.4% increase on the first six months of 2016. The dividend was hiked 8% to 2.6p. This strong showing is supported by continuing strong demand from the housebuilding sector with a previous oversupply of brick stocks no longer a headwind for the industry. The main negative was an increase in net debt from £133m at the beginning of 2017 to £160m. And with reports the Help to Buy scheme for prospective home buyers may be scrapped early and signs of a slowing housing market in the UK it may be prudent to book some profit. The stock, which traded on 10.4 times 2017 consensus forecast earnings when we first flagged its attractions, is now on a less attractive looking multiple of 13 times.



SHARES SAYS:

The shares are starting to run out of steam. Book profits ahead of any potential downturn in the UK. (TS)

BROKER SAYS: 8 3 0

Where next for market after sell off?

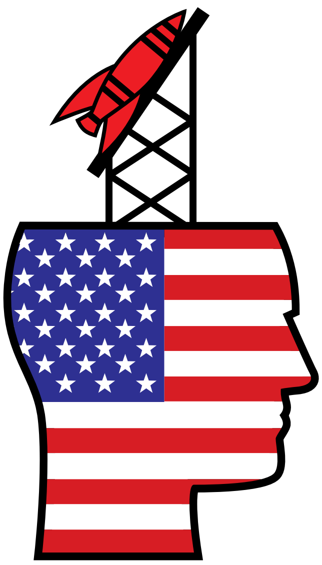
FTSE 100 drops 3% in three days after war of words between Washington and Pyongyang

As markets return to some semblance of normality following the geopolitical chest thumping between the US and North Korea, investors are moving back from their safe havens.

The escalating war of words briefly sent investors scurrying into safety-first assets such as gold, bonds and select currencies.

After President Donald Trump threatened North Korea with 'fire and fury' the FTSE 100 endured three days of consecutive losses which wiped off 3.1% of its value. Those stocks with the most exposure to the global markets were hardest hit, including miners and banks.

Among the FTSE 100 stocks down was **HSBC (HSBA)** which dropped 35.8p to 734.5p from open on 9 August to close Friday 11 August.



Pharma players also did not have a great time during the increasingly bellicose exchanges between the two states, with **GlaxoSmithKline (GSK)** and **Shire (SHP)** dropping 59.5p to £14.75 and 261.5p to £38.01, respectively.

MACHO TALK

Of course, when there's talk of being 'locked and loaded' and other macho lines regarding military might, defence stocks tend to do well. **BAE Systems (BA.)** climbing 6.5p to 582p from through the volatility.

However, as this is a US issue, it's the American-listed defence names that did well from the escalating war of words.

Missile companies Lockheed Martin and Raytheon hitting record highs.

Now calm has returned to the markets, with South Korea's exchange and currency both up. There has been a global rebound, with equities up across the globe.

In the box there are details of some of the scheduled announcements which could have a bearing on the future direction of markets in the coming weeks. As the North Korean episode demonstrates though there is little investors can do to prepare for external shocks.

And as discussed in last week's Editor's View article, for most long-term investors it makes sense to hold your nerve and stay invested even when markets get choppy. (DS)

KEY NEAR-TERM MARKET MOVING EVENTS

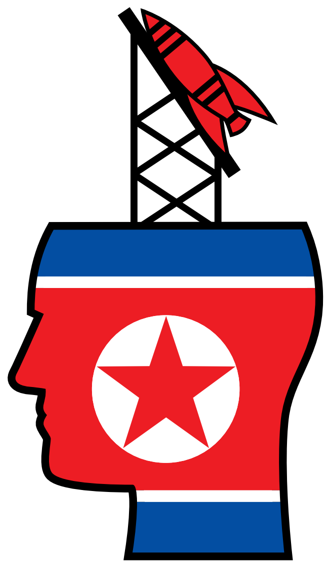
28 August
Third round of Brexit talks

1 September
US non-farm payrolls

14 September
UK interest rate decision

20 September
US interest rate decision

24 September
German federal elections



FRIDAY 18 AUGUST

AGMS	
GRAND GROUP INVESTMENT	GIPO
SYSTEM1 GROUP	SYS1

MONDAY 21 AUGUST

FINALS	
BHP BILLITON	BLT
INTERIMS	
PIRES INVESTMENTS	PIRI
TBC BANK	TBCG
ECONOMICS	
UK	
CBI INDUSTRIAL ORDER EXPECTATIONS	

TUESDAY 22 AUGUST

INTERIMS		
ANTOFAGASTA		ANTO
CAIRN ENERGY		CNE
EMPRESARIA		EMR
PERSIMMON		PSN
JOHN WOOD GROUP		WG.
AGMS		
PUMA VCT10		PUMX
EX-DIVIDEND		
ONE SAVINGS BANK	1SBA	2.3P

WEDNESDAY 23 AUGUST

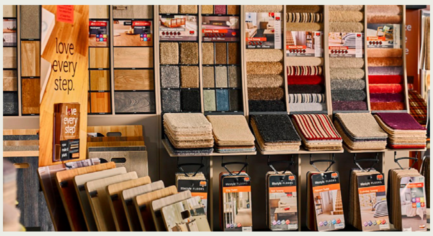
INTERIMS	
CARILLION	CLLN
HANSTEEN HOLDINGS	HSTN
VEDANTA RESOURCES	VED
WPP	WPP
AGMS	
DORIEMUS	DOR
INDEPENDENT NEWS & MEDIA	INM
TRIAD GROUP	TRD

THURSDAY 24 AUGUST

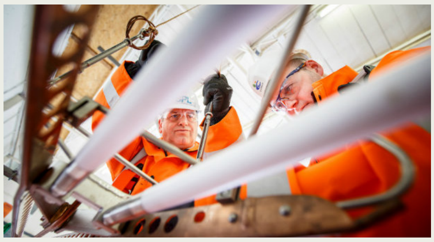
INTERIMS	
HUNTING	HTG
MACFARLANE GROUP	MACF
PREMIER OIL	PMO
POLYMETAL INTERNATIONAL	POLY
PLAYTECH	PTEC
PV CRYSTALOX SOLAR	PVCS
ECONOMICS	
UK	
INDEX OF SERVICES	
SECOND ESTIMATE GDP	
CBI REALISED SALES	
AGMS	
CITY OF LONDON GROUP	CIN
NEXTENERGY SOLAR FUND	NESF
PUMA VCT 8	PUM8
SERVISION	SEV
TRIPLE POINT INCOME VCT	TPV1

EX-DIVIDENDS		
BLOOMSBURY PUBLISHING	BMY	5.6P
BRISTOL WATER	BWRA	4.38P
CARNIVAL	CCL	$0.4
DIXONS CARPHONE	DC.	7.75P
DAIRY FARM INTERNATIONAL	DFI	$0.07

First half results from advertising giant **WPP (WPP)** on 23 August will be worth keeping tabs on for two reasons. Advertisers are seen as good bellwethers for the economy because companies will increasing spending on ads when they are feeling positive and scale back during tougher times. WPP has significant scale, breadth and geographic reach. Second, the commentary from chief executive Martin Sorrell tends to be both entertaining and insightful.



First half results (21 Aug) from European floor coverings distributor and dividend star turn **Headlam (HEAD)** will confirm further market share gains and strong cash generation, though the outlook statement will be key, August being a peak month for UK educational refurbishments. In a recent pre-close update (18 Jul), Headlam highlighted revenue growth in the UK and Continental Europe in the six months to June, with positive progress made in the residential and commercial sectors alike.



Beleaguered construction services company **Carillion (CLLN)** is releasing results on Wednesday 23 August and investors will be hoping for some good news. The firm's share price collapsed on 10 July after releasing a profit warning which cost CEO Richard Howson his job. However the company's subsequent £1.3bn contract for HS2 won in partnership with Eiffage and **Kier (KIE)** on 20 July suggests that it might not be all doom and gloom.

DAIRY FARM INTERNATIONAL	DFIB	$0.07
DAIRY FARM INTERNATIONAL	DFIJ	$0.07
DEVRO	DVO	2.7P
FDM GROUP	FDM	12P
FIDESSA	FDSA	15.3P
HICL INFRASTRUCTURE	HICL	1.96P
HONG KONG LAND HOLDINGS	HKLB	$0.06
HONG KONG LAND HOLDINGS	HKLD	$0.06
JARDINE LLOYD THOMSON	JLT	12.2P
JPMORGAN BRAZIL INVESTMENT TRUST	JBP	0.8P
LONDON STOCK EXCHANGE	LSE	14.4P
LOW & BONAR	LWB	1.05P
MANDARIN ORIENTAL	MDO	$0.02
MANDARIN ORIENTAL	MDOB	$0.02
MANDARIN ORIENTAL	MDOJ	$0.02
MITON UK MICROCAP TRUST	MINI	0.36P
MONDI	MNDI	€0.19
PARK GROUP	PKG	1.95P
RAMSDENS HOLDINGS	RFX	1.3P
SECURITIES TRUST OF SCOTLAND	STS	1.45P

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Could a Pru UK exit be on the cards?

Merger of UK businesses may indicate a future divestment and potential catalyst for the shares

FTSE 100 global life insurer **Prudential (PRU)** has been rallying this year, its share price up around 10% to £17.78 since the end of 2016. Its recent results beat consensus forecasts by 5% and 7% on new business revenue and profit respectively.

But the company merging its UK businesses is perhaps the most significant piece of recent news from Prudential.

Combining the company's asset manager M&G and Prudential UK and Europe into a new entity called M&G Prudential is being done to create a more 'capital-light' operation according to the board.

UK PROFIT UP JUST 1% IN FIRST HALF

REFINING THE FOCUS

However, for a business worth nearly £50bn it might make sense to cut off some divisions that aren't as profitable as others. If the newly packaged up UK businesses were sold off, Prudential would be purely US and Asia focused.

The potential sale of the UK arm is likely to be one of the hot topics when Prudential holds its investor day on 16 November.

The structural growth story of Asia is well known and the baby boomer group in the US is ripe for Prudential's US life business, Jackson. The division enjoyed a 7% rise in operating profit in the first six months of 2017 and according to the firm is outperforming the wider market.

In Asia, new business profit is up by 18% and with the firm is expecting a further 700m people to enter the middle class in the next five years, the region has huge potential.

Prudential says that 'by 2020, the spending of the middle class in the Asia-Pacific region is expected to surpass that of the US and Europe combined'.

SALE MAY NOT HAPPEN FOR SOME TIME

This is not say that the Prudential's UK operations

are a drag on the company yet, its life premium revenues are up 22% to £721m in the first half. In terms of profit growth though, the UK is lagging behind the company's other regions, especially for long term business. While Asia and the US increased by 20% and 22% respectively, the UK only increased operating profit by 1% to £480m.

M&G Prudential is expected to produce to savings of £145m a year from 2022 after a one-off outlay from shareholders of £250m. This suggests that a sale of the business is not happening any time soon. Which is not a disaster as the firm has strong fundamentals.

Based on forecasts Arjan van Veen, analyst at UBS, predicts that Prudential is trading on a forecast price to book ratio of 3-times and using his earnings per share figure, price to earnings ratio of 12. This is already at a slight premium to its peers but if the UK business is sold it could change the market's view of the stock and drive further share price strength. (DS)

Spinnaker spies energy opportunities

Micro cap cash shell in the market for oil and gas firms

Cash shell **Spinnaker Opportunities (SOP)** is closing in on its first acquisition which could act as a catalyst for the share price if the deal is well received.

The micro cap floated with a standard listing on the Main Market in May (17 May). This reflects a growing trend of cash shells shunning AIM in favour of a standard listing which is typically cheaper. We featured an article from an outside contributor on this issue back in June.

WHO IS BEHIND THE BUSINESS?

A cash shell is a vehicle which has no assets apart from cash and is generally set up with the intention of identifying a business to acquire. Spinnaker is no exception to this rule and is looking to provide a route to market for a business through a reverse takeover. It is focusing on firms valued between £5m and £30m in the energy or industrial sectors.

The founders of the company provide a clue as to any likely target. They include managing director Andy Morrison, a 17-year veteran of **Royal Dutch Shell (RDSB)** and BG, Richard Liddell, previously operations director at **Premier Oil (PMO)**, and former **BP (BP.)** and Shell man Tony Harpur.

Directors have invested £310,000 of their own cash in the venture and £1.1m was raised at IPO. Their plan is to depart once the first acquisition is complete so investors in the company are placing faith in their ability to identify a worthy target. The focus is on cash generative companies which do not face unfunded financial commitments in the near-term. The company started with just under 30 opportunities with a ratio of 3:1 between targets in the energy and industrial sectors.

Once any reverse takeover is complete the newly listed business will almost certainly look to raise capital through a share placing.

WHAT IS THE LATEST?

In a July update Spinnaker noted that the 'opportunities now under consideration remain

weighted towards the oil and gas and energy industry, but also include one option in the supply chain and technology space' towards the upper end of the valuation range. Morrison adding that only a 'handful of opportunities' remain live.

The company is next likely to update in late August or early September. There is little speculation in the current share price which is down on the 5p issue price at 4.52p.

SHARES SAYS: ↗
High risk but may be worth a look ahead of its first investment. (TS)

Harvest the recovery at Carr's

US nuclear foothold a positive catalyst for agriculture-to-engineering firm

This looks a canny time to harvest the earnings recovery potential at agriculture products-to-engineering play **Carr's (CARR)**.

The $20m acquisition (7 Aug) of US engineering business NuVision brings a strong foothold in the main nuclear markets of the US and will boost Carr's future earnings.

Pittsburgh-headquartered NuVision's customers include the US Department of Energy, major nuclear energy suppliers, public utilities and international governments.

NuVision boasts a very healthy order book and the acquisition offers potential for revenue synergies with Carr's other nuclear engineering businesses.

Sentiment towards Carr's, whose agriculture division supplies farm machinery and feed blocks for cattle, is recovering following a period of weaker-than-expected demand in the US feed market and a delayed engineering contract. Encouragingly, this contract has now been signed and US cattle prices seem to be recovering.

Investec Securities' Nicola Mallard has upgraded her price target from 170p to 195p to reflect NuVision and the profit recovery she forecasts for the year to August 2018. Results for the year to August 2017 are forecast to show lower normalised pre-tax profits of £11.3m (2016: £14.1m), although Mallard looks for a strong rebound to £15m next year ahead of £16.3m in fiscal 2019, with increased dividends of 4.3p and 4.5p shaded in for these latter years.

SHARES SAYS: ↗

We see merit in the NuVision deal and note that at 143p, there's more than 36% upside towards Investec's price target. (JC)

BROKER SAYS: 1 1 0

LightwaveRF leaps on Apple launch

SMART HOME TECH tiddler **LightwaveRF's (LWRF:AIM)** shares shot up almost 20% to 28p on news (14 Aug) its exciting next generation Apple HomeKit product range for controlling smart devices is about to launch (3 Oct) in Apple's retail stores in the UK and UAE, as well as online.

Led by charismatic CEO Andrew Pearson, LightwaveRF also flagged an extensive marketing campaign to publicise the new range of products, which control smart devices in the home with iOS apps and Siri voice commands. (JC)

NWF's fuel supply makes up for rising feed costs

AGRICULTURAL SUPPLIER **NWF (NWF:AIM)** has been hit by rising costs of feeds although offset this by growing its fuel supply business.

The company had invested in new fuel depots in the South East which exceeded expectations in the first year of operating. As its feed division buys its raw materials under forward purchase contracts, increases in prices impacted margins as the company was not able to fully pass on these increases. (DS)

LiDCO secures first customer for programme

HOSPITAL EQUIPMENT monitoring specialist **LiDCO (LID:AIM)** has scored its first US customer for its high usage programme. The undisclosed customer, one of the world's largest cancer hospitals, signed a deal for 44 monitors to check the amount of blood flowing around the body. On an annualised basis the contract should result in a 35% uplift in LiDCO's annual recurring revenue in the US. Year-to-date shares in the company are up nearly 50% at 8.8p. (LMJ)

Summer Sizzlers

STOCKS WITH MOMENTUM BEHIND THEM AND A SUNNY OUTLOOK AHEAD

Geo-political tensions aside, the trend for UK stocks has been firmly positive so far in 2017 as investors have shrugged off another electoral shock and ongoing Brexit fallout. That pushed the FTSE 100 index to within touching distance of record 7,547.63 highs until the recent North Korea inspired wobble. Other indicies have performed even more strongly with the FTSE 250, FTSE Small Cap and FTSE AIM All-Share up by 8.7%, 10.4% and 17.6% respectively as we write.

We have run a very simple screen to identify the 100 best performing London-listed stocks. Because smaller companies can be driven higher by just a small number of trades and may be rising from a very low base we have limited our selection to companies valued by the market at £100m or more to ensure we are capturing genuine momentum.

TREND IS YOUR FRIEND

Happily, several of the stocks on the list are already constituents of our *Great Ideas* portfolio. Names like litigation finance provider **Burford Capital (BUR:AIM)**, flavour and fragrance specialist **Treatt (TET)** and housebuilder **Countryside Properties (CSP)**. We have identified five more stocks which we think can sustain their recent soaraway performance.

Our selections encompass software firm **WANdisco (WAND:AIM)**, cards, gift bags and crackers maker **IG Design (IGR:AIM)**, specialist marketing company **Next Fifteen Communications (NFC:AIM)**, **Impax Asset Management (IPX:AIM)** and private healthcare provider **NMC Health (NMC)**.

'Momentum' investing works on the principle that the 'trend is your friend' and typically means buying assets which are enjoying consistent price appreciation. To put it more simply it involves buying what is going up.

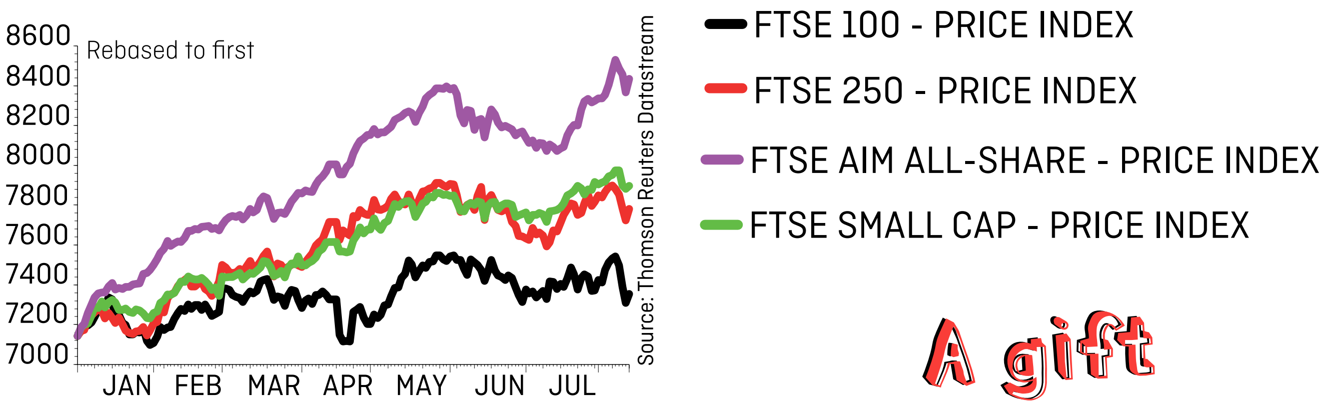
NEED FOR CATALYSTS

If a share is going to keep on rising it requires catalysts to maintain investor interest. This could be a drugs trial, drilling result, new contract or positively-received trading or strategy update.

There is a well-worn investor adage that 'elephants don't gallop' but some big names have proved this wrong in 2017. Some due to merger and acquisition (M&A) activity. Payment processing firm **Worldpay (WPG)** up more than 40% and subject to a recommended £9.3bn frim US rival Vantiv.

The positive outlook which has driven housebuilding stocks like FTSE 100 constituent **Persimmon (PSN)** and its smaller counterpart Countryside now looks cloudier after reports the Government may scrap the Help to Buy scheme and signs a malaise in the London property market is spreading beyond the capital.

In contrast, the names we highlight in the remainder of this article still have fuel in the tank and clearly identifiable catalysts which can drive their shares higher. (TS)



WHAT IS BEHIND THE SHARE PRICE MOMENTUM?
A massive rebuilding job of investor confidence is the short answer. Two key points have dictated that success; cash and growth. Data replication technology designer WANdisco has attacked its cost base with gusto slashing previously eye-popping cash burn to close to nothing. The company used $600,000 to fund the business in the six months to 30 June, versus $5.3m for the same period in 2016, leaving $9.9m of net cash on the books. Management expects to end the year with positive cash flow from operations.

But that the growth gates have finally opened is just as important to the firm's long-run chances of success, and an even higher share price. Developing a blue-chip channel partners (including Amazon Web Services, IBM, Oracle) rather than chasing business itself is making all the difference. This has led to its biggest ever single contact worth $4.1m for its *Fusion* platform, its first ever healthcare deal ($0.65m), and a maiden online retailer agreement, a $2m contract in the US.

These cut downtime in the event of power outages or cyber attacks, for example, hugely important issues for high volume internet business users such as online retailers and banks.

WHAT ARE THE NEAR-TERM CATALYSTS?
Clearly more new contracts will feed the current optimism, while news of new channel partners of scale will also help. But above all, investors will want to see firm evidence that upbeat talk is translating into meaningful revenue growth. That *Fusion* booking (future contracted revenue) jumped 173% in the first half is highly encouraging and investors will get more detail at interim results expected in early September.

'The world has changed – and WANdisco with it,' rightly predicted analysts at investment bank UBS in January. They also presumed that the shares 'are due a pause' after doubling to 400p-odd in 10 days. That latter comment has proven to be a tad too cautious – the stock has since doubled again despite a consensus target price of 465p. (SF)

A sweet deal

WHAT IS BEHIND THE SHARE PRICE MOMENTUM?

YEAR-TO-DATE GAIN: 50.9%

Gift packaging, stationery and creative play products maker **IG Design's (IGR:AIM)** strong results and earnings upgrades have driven share price momentum in 2017. Record full year results (27 Jun) were ahead of previously upgraded estimates, a 31% revenue surge to £311m spearheaded by growth in the US and Continental Europe. An especially strong cash performance shifted the balance sheet to a cash positive, debt free position. Brexit-buster IG Design is predominantly an overseas earner with growing geographic and customer diversification. Last year's acquisition of home décor-to-lifestyle products business Lang in the US added product and augmented a customer roster that includes Costco, Target, Walmart, **Tesco (TSCO)** and Aldi.

WHAT ARE THE NEAR-TERM CATALYSTS?

For the year to March 2018, Edison Investment Research's upgraded forecasts point to normalised pre-tax profits of £20m (2017: £17.1m) and a 5.5p dividend ahead of £22.5m and 6.5p thereafter. Although the shares have re-rerated, further earnings upgrades are likely given current momentum with value retailers in Europe and the US. New customer wins and upside from licensed products (Peppa Pig, Star Wars, Paw Patrol) could spark upgrades. A dramatically strengthened balance sheet means management has flexibility to invest in best-in-class manufacturing and bolt-on acquisitions. An additional catalyst might be dividend surprise, last year's 80% total dividend hike to 4.5p increased ahead of analysts' forecasts. (JC)

WHAT IS BEHIND THE SHARE PRICE MOMENTUM?

This company's focus on environmental assets has clearly paid off this year with its assets under management (AUM) hitting £6.9bn at the end of July, around a 50% increase since the start of its financial year on 1 October 2016. Even President Donald Trump's declaration to withdraw from the Paris Climate Accord should not dent the firm. Impax's chief executive Ian Simm says Trump's move has done little to sate investors' appetite for 'investments in companies that provide solutions to environmental challenges'.

The firm is riding the wave of increased investor interest in sustainable and environmental assets. These include clean energy, waste management and water which Simm says 'are growing more rapidly than the main economy'.

YEAR-TO-DATE GAIN: 59.5%

WHAT ARE THE NEAR-TERM CATALYSTS?

These trends show no sign of slowing and the recent publication of climate-related financial disclosures by a task force from the Financial Stability Board should also bolster the company. Stuart Duncan, analyst at Peel Hunt, thinks it should 'stimulate interest in sectors that will benefit in a low carbon economy over the long term'.

As more focus is being brought upon resource scarcity, population dynamics and inadequate infrastructure, the firm should expect more earnings growth from well-positioned companies in its portfolios. (DS)

YEAR-TO-DATE GAIN: 38.9%

WHAT IS BEHIND THE SHARE PRICE MOMENTUM?

The digital marketing firm has a bias towards a relatively buoyant tech sector in the US and strong footprint in California. The client base includes the likes of Facebook, Google's parent company Alphabet, and IBM. A mix of organic expansion and smart deals have helped deliver strong earnings growth. In April (4 Apr) the company announced earnings per share up 38% in the 12 months to 31 January 2017 and cash from operations more than doubled to £32.8m. Year-to-date the company has made two bolt-on acquisitions and there is plenty of scope for further M&A given limited existing borrowings and the strong cash generation.

WHAT ARE THE NEAR-TERM CATALYSTS?

Investment bank Berenberg reckons the company can achieve organic growth in the high single-digits from its US business. It comments: 'Given Next15's strong positioning, it is possible to see the momentum in 2017 continue into 2018E, which could result in our forecasts being too conservative.' Based on Berenberg's current estimates the stock trades on 15.2 times forecast January 2019 earnings. It adds that annual M&A spend of £20m per year could boost its price target from 500p to 650p. Near-term catalysts include half year results in September and news on any further acquisitions. (TS)

This has the competition licked

YEAR-TO-DATE GAIN: 48.1%

WHAT IS BEHIND THE SHARE PRICE MOMENTUM?

Shares in **NMC Health (NMC)** have had a good run thanks to favourable regulatory changes, strong full year results and its looming entry into the FTSE 100.

In July, we reported that NMC has the potential to oust **Royal Mail (RMG)**, which is becoming more likely as its market cap is at £4.5bn compared to Royal Mail's £4bn.

In March, The Abu Dhabi government decided it would no longer charge people extra to use private healthcare.

The regulatory shake-up is expected to drive earnings before interest, tax, depreciation and amortisation (EBITDA) towards the top end of a range between $335m and $350m in the year to 31 December 2017.

WHAT ARE THE NEAR-TERM CATALYSTS?

Even this range may be underestimating NMC as Deutsche Bank analyst Marc Hammoud believes the private healthcare firm will hit $356m in EBITDA.

NMC also plans to increase bed capacity from 680 to 1,450 beds over the next three years and deliver specialist services such as in-vitro sterilisation to drive higher margins.

A move into the FTSE 100 at the next reshuffle in September could also boost NMC as funds set up to track the index would have to buy its shares.

In terms of M&A potential, Hammoud says if NMC deploys $500m at the average price to earnings multiple of 14.3 times, it would add an equity value of £1.60 per share, implying a valuation of £28.10.

As shares in NMC are currently £22.05, this implies 21% upside potential. (LMJ)

Eve Sleep could be AIM's next dream investment

Shares assesses the investment potential of the premium memory foam mattress seller

Having previously raised £22m in private funding from (current) backers including Channel 4, Octopus Investments and Woodford Investment Management, premium memory foam mattress seller **Eve Sleep (EVE:AIM)** floated on the AIM market on 18 May, raking in £35m at 101p to accelerate its growth in a £26bn European sleep market.

The IPO valued the business at £140m post new money or roughly 11.7 times historic sales, which at first glance looked very expensive for a mattress company. But the share price has subsequently softened to 84.5p (£116.9m), which after some initial in-house scepticism towards the story, *Shares* considers a buying opportunity for bolder investors.

SLEEP DISRUPTOR

Co-founded by CEO Jas Bagniewski, Eve Sleep is a high-growth, online-focused direct to consumer European sleep brand. The proposition to consumers is simple; the North London-headquartered concern designs and sells 'the world's most comfortable mattress', a premium memory foam mattress backed by a 10-year guarantee, a 100-day trial and free next-day delivery.

As *Shares* reports in this week's Big News (see page 6), big ticket spending is coming under pressure as consumers pull in their horns and prioritise non-discretionary purchases. However, the Eve mattress is priced significantly below store-based equivalents and at £549 for a double mattress, is under-cutting competitor memory foam-based mattresses such as Tempur.

Interest free credit is also available and Eve Sleep has injected the marketplace with innovation, which means it is growing the market for premium mattresses as well as taking market share. Given the growth rates this AIM newcomer is generating, it is evident that consumers are buying into the lifestyle benefits of better sleep and the higher quality mattress the company offers.

Shares also notes the Eve brand has been named as one of the UK's Top 100 Cool Brands. This is important because desirable brands can garner loyal followings and generate fantastic returns for investors, as seen with the likes of **Fevertree Drinks (FEVR:AIM)**, **Joules (JOUL:AIM)** or **Ted Baker (TED)**.

PILLOW TALK

Peel Hunt initiated coverage (29 June) with a buy rating and 135p target price, one that implies 60% upside from current levels. Its analysts are excited by Eve Sleep's very strong margin structures and low investment requirements. A simple delivery proposition, which sees the mattress rolled into a box, and low returns rates mean Eve makes far higher margins than web-based fashion retailers for example.

Furthermore, Eve mainly focuses on the design, branding, marketing and selling of its wares with manufacturing and fulfilment outsourced. This means that the business is able to scale quickly internationally without the requirement for significant capital investment.

SWEET (GROWTH) DREAMS

Bagniewski and his team are ambitious and want to build Eve into the leading pan-European sleep brand. Despite the rapid growth delivered in its short history, it currently has a fractional 0.1% of a fragmented European sleep market thought to be worth £26bn.

The Eve mattress generates the overwhelming bulk of revenue and is being sold across Europe, but included in the offering are pillows, sheets and accessories and the portfolio is being built out to include beds, bedroom furniture and textiles. To drive brand awareness and market penetration the mattress is also being sold through a number of retail partners including **Next (NXT)**, Fenwick and **Debenhams (DEB)**.

Peel Hunt sees growth underpinned by rising brand awareness, new product introductions – Eve has launched a baby mattress, linen sheets and a new 'baby box' concept for **Mothercare (MTC)** – international online expansion and global retail tie-ups.

> CO-FOUNDED BY CEO JAS BAGNIEWSKI, EVE SLEEP IS A HIGH-GROWTH, ONLINE-FOCUSED DIRECT TO CONSUMER EUROPEAN SLEEP BRAND.

Eve Sleep's half-year trading update (12 Jul) showcased strong trading momentum with sales up 126% to £11.5m reflecting strong online-led performances across all territories. UK sales shot up 107% to £6.3m, while international sales surged 153% ahead to £5.2m. The majority of global sales were generated from France and Germany.

Encouragingly, Eve issued a confident outlook and also announced an acceleration of UK retail partner sites following a successful trial at Next and also said talks with similar partners across Europe are underway.

For the current financial year to December, Peel Hunt forecasts sales of £27.2m (2016: £12m) with a widened loss of £13.1m (2016: £10.7m), ahead of £66.8m revenue and an £11.5m loss in 2018. However, 2019 should see Eve Sleep achieve a £1.7m pre-tax profit breakthrough as turnover rockets higher to £113.7m, forecasts which we believe could prove conservative.

Eve Sleep is currently loss-making at group level and won't appeal to risk-averse, cautious investors. Set against this, Peel Hunt believes the UK business is nearing profitability already – it is only the ambitious European expansion that is holding back short term profitability.

SHARES SAYS: ↗

The balance sheet is ungeared and following forecast cash outflows over 2017 and 2018, Peel Hunt sees eve 'becoming self-funding from free cash flow thereafter'. We think the shares are worth a look at 84.5p ahead of interim results (13 Sep). (JC)

BROKER SAYS: 1 0 0

FORECAST TABLE – Eve Sleep

Ty to Dec	Sales (£m)	Adjusted PBT (£m)	EPS (p)
2016A	12	(10.7)	(7.8)
2017A	27.2	(13.1)	(9.4)
2018A	66.8	(11.5)	(8.3)
2019A	113.7	1.7	1

Source: Peel Hunt

Why investment trusts use gearing

Highly geared investment trusts can turbo charge returns but there are risks

Investment trusts have a thrust button they can push to boost returns, it's called gearing. This involves the manager using debt to increase the level of holdings rather than having to sell some securities they'd rather keep to fund future purchases.

This facility is not available to open-ended funds and can be a selling point for investment trusts. For an explanation of the mathematics involved with gearing please read this article.

For income investors this can be particularly useful as it means trust managers can add a greater number of securities to pay out potential dividends.

If a trust is highly geared it does add volatility to the fund though, as markets can also go down. In a bull market, gearing can amplify returns but when sentiment changes it can magnify your losses.

David Holder, senior fund analyst at Morningstar says: 'If you have a plain vanilla bluechip portfolio with an equity income tilt that has good dividends coming in, it can use some gearing as underlying assets are lower volatility. There's insurance of returns through the dividends.'

However, Holder also says that a trust with small cap holdings and high gearing is likely to see greater volatility, probably not paying out

> SOME TRUSTS WERE PAYING HIGH LEVELS OF INTERESTS AT 11% WHICH HAS BEEN A PROBLEM FOR TRUSTS LEADING SOME TO INVEST INTO RISKIER ASSETS, TO FIND THE RETURN

dividends. Ultimately putting gearing on lower quality assets can cause problems.

COST OF DEBT

One of the issues with using gearing is when and how a manager locks in the borrowing. During the 1990s some investment trusts locked in borrowing costs when interest rates were in double digits. Given that interest rates have now been historically low for a long time, in hindsight this was a mistake.

'Some trusts were paying high levels of interests at 11% which has been a problem for trusts leading some to invest into riskier assets, to find the return,' says Holder.

Some trusts would simply refinance their debt and bring the level of interest down to a more sustainable level. Holder adds that he likes to see a variety of gearing using shorter term banking facilities which are flexible and cheap.

Although these bank facilities have to be paid for whether you use them or not, Holder says there are lots of trusts locking in cheap long term money at 3%.

The Association of Investment Companies' (AIC) director of communications Anabelle Brodie-Smith says that some trusts don't intend to use all their gearing facilities. 'We had financial advisers concerned that the level of gearing would change once they'd invested for their clients and it wouldn't be suitable anymore.'

The AIC put out a paper in November 2016 saying the use of gearing in investment trusts put 40% of investment advisers off using the instrument. In the same report 23% of advisers said they were dissuaded from using geared trusts due to compliance reasons and 22% due to the difficulty of getting hold of risk ratings.

> ONCE THEY ARE LISTED ON THE STOCK EXCHANGE, SENTIMENT COMES INTO THE SHARE PRICE SO IT'S NOT JUST ABOUT ASSET VALUES. IT MIGHT ADD VOLATILITY BUT OVER THE LONG TERM ALL THESE THINGS TEND TO WORK IN THEIR FAVOUR TO GIVE THEM OUTPERFORMANCE

BIG BETS

According to the AIC, one of the highest geared funds it tracks is the **British & American Investment Trust (BAF)**. This fund is using gearing of 140% so it is at the top end of the scale.

The trust is a UK equity income fund with its portfolio concentrated in investment trusts and biotechnology. Its top holdings include biotechnology firms Geron and BioTime, as well wealth manager **St James's Place (STJ)**.

It is currently trading at a premium of 116.2% as the trust's net asset value is 41.63p but its share price is 90p.

Brodie-Smith says, 'with investment companies they tend to over perform over longer periods because of gearing and the closed ended structure which means managers don't have to deal with inflows and outflows of money.

'Once they are listed on the stock exchange, sentiment comes into the share price so it's not just about asset values. It might add volatility but over the long term all these things tend to work in their favour to give them outperformance'.

A less extreme example is the **Value & Income Trust (VIN)** which invests in property, typically a geared asset type. According to company's investor's prospectus, the trust will use leverage when it believes that the asset funded by borrowing will generate a return greater than the cost of borrowing. There's no point in borrowing at a rate of 5% and returning less than that per annum.

The company will not raise new borrowings if the total would then represent more than 50% of the total assets. It will use gearing between 25% and 40% and is currently set at 28%.

While the average level of gearing across all trusts is around 6%, when a manager is feeling bullish and has the mandate to push the thrust button, it can really boost returns. The British and American Trust is up 18.9% in six months for example. (DS)

Time to review pension drawdown arrangements

Investors who are in capped drawdown are now subject to lower income limits

The amount of pension income you can receive from a capped drawdown product has been curtailed, further increasing the attractiveness of flexi-access drawdown. But there are lots of things to consider before making the move to this type of product.

WHAT IS CAPPED DRAWDOWN?

Capped drawdown is a type of income drawdown product that was available before 6 April 2015. Like the newer flexi-access drawdown, it enables you to take a tax-free cash sum of up to 25%. The remainder is invested into funds designed to pay you an income.

Unlike flexi-access drawdown, the amount of income you can receive is capped. The cap is 150% of the income a healthy person of the same age could get from a lifetime annuity. This figure is worked out using Government Actuary Department (GAD) rates, which are based on an investor's age and the yield on 15-year Government gilts from the 15th day of the previous month.

WHY HAS THE INCOME LIMIT FALLEN?

At the start of this year HMRC published new GAD tables to reflect the fall in gilt yields. It removed the previous 2% floor and introduced a new lower limit of 0%.

On 1 July, these new GAD rate tables took effect. The gilt yield for July was confirmed as 1.56%, which was rounded down to 1.5% for the purposes of calculating capped drawdown income limits.

According to Suffolk Life, this means a £3 or £4 drop in the rate per £1,000. A 60-year-old investor with a £200,000 pension will have a new income limit of £12,900 – a £900 drop from the £13,800 limit which would have applied if the 2% minimum rate was used.

WHAT ARE THE ADVANTAGES OF CAPPED DRAWDOWN?

Although your income limits will have dropped, there are still several advantages to using capped drawdown.

One of the main benefits is you can continue to contribute up to £40,000 per year into your pension. This is because your Money Purchase Annual Allowance (MPAA) won't be triggered.

If you switch to flexi-access drawdown, the amount you can save into your pension once you start drawing an income is much lower. You will trigger the MPAA, which was slashed from £10,000 to just £4,000 from April 2017.

Ian Browne, pensions expert at Old Mutual Wealth, says this makes capped drawdown a good option for people who have an unpredictable or irregular working life and income, who may be caught out by the MPAA.

This could include people who are taking a staged retirement; or those who have been made redundant, start drawing an income and then get a new job.

Browne says the cap set by the GAD rate can also act as a guide for investors to help them manage their drawdown funds over the long term.

WHAT ARE THE PROS AND CONS OF FLEXI-ACCESS DRAWDOWN?

For some people it may be better to switch to flexi-access drawdown. Danielle Byrne, technical resources consultant at AJ Bell, says the main benefit is the ability to take unlimited withdrawals from your pension, thus giving you greater flexibility and freedom.

'It may seem like a better fit for modern retirement,' she says.

As well as triggering the MPAA, a downside of flexi-access drawdown is that without a cap you don't have any sort of guide over what a sustainable withdrawal could be.

'Although there are no uppermost limits, an individual should assess the sustainable level of income from the fund in order to make informed decisions about their level of drawings,' advises Martin Tilley, director of technical services at Dentons Pension Management.

There's also a risk that if you withdraw too much money you'll be pushed into a higher income tax bracket and be hit with a hefty tax bill.

It's important to realise that once you switch to flexi-access drawdown you can't reverse it, so you need to be sure it's the right decision for you.

> **"THIS MAKES CAPPED DRAWDOWN A GOOD OPTION FOR PEOPLE WHO HAVE AN UNPREDICTABLE OR IRREGULAR WORKING LIFE AND INCOME, WHO MAY BE CAUGHT OUT BY THE MPAA"**

GUIDE TO CAPPED DRAWDOWN

- You cannot take out a new capped drawdown product
- The maximum income you can withdraw each year is capped at 150% of the GAD relevant annuity with no guarantee
- No income has to be taken at all
- The upper income limit is reassessed every three years for people under age 75
- The upper income limit is reassessed every year for people over age 75
- You can continue to pay £40,000 into your pension
- If the income taken exceeds the cap the plan will automatically convert to a flexi-access drawdown plan.

ARE THERE ANY OTHER OPTIONS?

There are a few other options if you're in capped drawdown and need to make up your pension income shortfall.

Browne says you could rely on your other assets, for example your ISAs. You can draw as much money as you like from an ISA and the withdrawal won't be subject to income tax.

It's also possible that you have other pension benefits you could rely on, such as the state pension or other personal and occupational pensions.

Another option is to take an uncrystallised funds pension lump sum (UFPLS). Under UFPLS rules, you can take lump sums as and when you want without going into drawdown. Usually 25% of each withdrawal is tax-free and the rest is taxable. Your remaining pension can stay invested.

A downside is that as soon as your first UFPLS is taken, the MPAA will be triggered. In addition, taking high withdrawals could push you into a higher income tax bracket. (EP)

Official stats expose great pensions divide

There are big differences in people's provision for retirement

We all know that saving early and often is the key to enjoying a prosperous retirement. But just how much difference can saving in a private pension, such as a SIPP, make to your income in old age?

Figures published by the Office for National Statistics recently shed some light on the different outcomes experienced by those who do save, and those who don't.

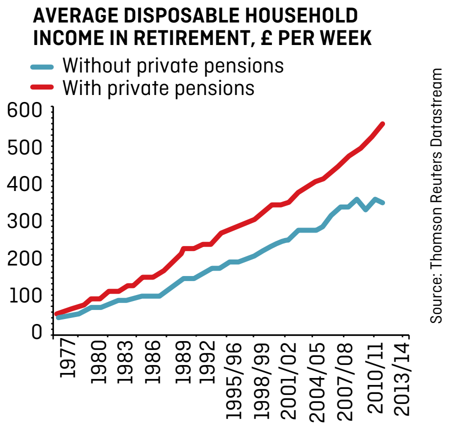
SIGNIFICANT DIFFERENCES

And the difference is significant. In 2015/16, the average disposable weekly income in retirement for a household that saved in a private pension was £534.75 versus just £331.33 for those who hadn't built up their own pot. That's a 60% higher income for those who sorted their own retirement compared to those who didn't and relied on the state.

We can also see from the graph that the difference between the pension 'haves' – those who set aside money in a private pot – and the pension 'have nots' has grown sharply since 2010.

This is likely to, at least in part, reflect the contraction of the state as post-financial crisis austerity cuts reduce the ability of the state to fill the income void for those who don't save privately.

But it isn't all doom and



gloom. Membership of private pensions has risen steadily in recent decades, with 79% of retired households now having some private pension income compared to only 45% in 1977. This trend is likely to continue and accelerate as automatic enrolment – which requires all employers offer a workplace pension to staff – is introduced across the country.

For the majority the auto-enrolment minimum total contribution of 8% won't be enough and the state pension, while providing a useful base income, is not sufficient to cover most people's costs. This will particularly be the case for those who still have a mortgage to pay off in retirement or need to pay for long-term care.

Long-term care is particularly topical at the moment, with independent estimates suggesting one in four people will need care at some point in their lives and costs sometimes running into tens of thousands of pounds.

TAKING OWNERSHIP

Auto-enrolment only solves the coverage part of the pensions problem. If you want to enjoy a comfortable retirement, you need to take ownership of your retirement and save as much as you can, taking advantage of all the savings perks currently available.

Tom Selby,
Senior Analyst, AJ Bell

Bold recovery calls can bring big rewards

Access compelling recovery situations and management change stories through collectives

Whatever the market backdrop there will be stocks which or recovery situations or management change stories that could potentially result in big returns. Recovery investing can be a risky endeavour, which is why it is so helpful to harness the expertise of fund managers.

Among the best-known recovery funds are the capital growth-focused **M&G Recovery (GB0031289217)**, whose manager Tom Dobell invests at least 80% of the portfolio in out-of-favour firms where he believes a good management team is making concerted efforts to turn the business around.

Schroder Recovery (GB0007893760) invests in UK companies that have suffered severe share price or profitability setbacks, while contrarian Alex Wright's **Fidelity Special Situations (GB0003875100)** scouts for unloved, undervalued firms where the market is overlooking the recovery potential.

RECOVERY FUND FAVOURITES

Alastair Mundy, the manager of **Investec UK Special Situations (GB0031075665)**, puts money to work with the market's unloved stocks, while over in the closed-ended funds sector, we think **The Scottish Investment Trust's (SCIN)** 9.21% discount to net asset value implies a buying opportunity.

Investing globally with the aim of achieving capital appreciation and inflation-busting dividend growth, the self-managed trust's four-strong management team led by Alasdair McKinnon uses behavioural finance techniques to exploit investors' tendency to 'follow the crowd'. By focusing on stocks that are very unloved, those with operational improvements that have been overlooked, and more popular stocks that can continue to do better, the managers build in a margin of safety.

Contrarian McKinnon's picks fall within three categories: 'ugly ducklings' such as **Marks & Spencer (MKS)**, 'change is afoot' stocks including Treasury Wine Estates and 'more to come' ideas such as Japan's Nintendo.

> LINDSLEY RUTH – A FANTASTIC CAPITAL ALLOCATOR WHO HAS GOT THE BUSINESS MOVING MATERIALLY

SAVVY SAVVIDES

Yet another way to gain exposure to recovery situations, as well as restructuring and 'hidden growth' stories, is through the acumen of **JOHCM UK Dynamic Fund's (GB00B4T7HR59)** Alex Saviddes, a proven backer of positive corporate change.

Savvides (above) is an independent thinker whose 'change' based investment process has delivered outstanding, benchmark-beating returns. Launched in 2008 'in the teeth of the financial crisis', it has since faced a series of turbulent events which have tested his mettle. 'It has been very uncertain and volatile all the way through,' says.Savvides.

His fund is up 100.9% on a

five-year basis versus 69.7% for the IA UK All Companies sector according to Trustnet, 'but we've always faced that as a fund, we don't use it as an excuse not to invest capital. We use that as a reason to find interesting ideas that might be undervalued.'

POSITIVE CORPORATE CHANGE

JOHCM UK Dynamic's senior fund manager believes the market's misunderstanding of corporate change, typically new management teams with new strategies, regularly throws up opportunities for patient, disciplined and unemotional investors.

The process Savvides has developed aims to profit from understanding change and investing where there is the highest probability of success but with the highest cash-based valuation support.

Companies that tend to alert his antennae are typically ones 'where revenues and performance has tailed off because management has been poor in their capital allocation decisions or run the business poorly'.

Savvides sees opportunities where the market perception is of what the company used to be under old management, 'but the reality is a new management team has gone in, the company has accepted it needs to change at board level and management is thinking about how it can improve return on capital and cash generation.

'There is this gap that emerges between what's going to happen and what has happened, and that's where we exist as a fund.'

> SAVVIDES IS AN INDEPENDENT THINKER WHOSE 'CHANGE' BASED INVESTMENT PROCESS HAS DELIVERED OUTSTANDING, BENCHMARK-BEATING RETURNS

DIVIDEND DISCIPLINE

'Every company we invest in has to have had a history of dividends, has to be paying one today or we give them one year grace period where they might be using the cash to pay down debt, but they should routinely be paying dividends out because the company is cash generative. So we take a bit more of our total return from income than (the aforementioned funds) do and we have interesting yield characteristics that our clients like,' Savvides adds.

Portfolio positions include buyouts-to-infrastructure focused **3i (III)**, purchased during the financial crisis and which has been 'an absolutely brilliant investment for us', Marks & Spencer and Frankie & Benny's operator **Restaurant Group (RTN)**. The fund is also profiting from the renaissance underway at electronic components-to-engineering consumables play **Electrocomponents (ECM)** which following a long period of malaise is now outperforming under new CEO Lindsley Ruth, 'a fantastic capital allocator who has got the business moving materially.'

Always making up his own mind on a stock, Savvides' backing of **Morrisons (MRW)** when the supermarket was struggling in 2014 and 'analysts were all routinely negative sellers of the company' has proved a sound call, with CEO David Potts driving a turnaround of the grocer. Savvides explains:

'The old management weren't accepting of the competition and how things were changing, cue one major profit warning where they had to invest a lot into price. But what we liked about Morrisons was its asset backing.

'It had a pension surplus not a deficit, didn't have major lease assets and had a competitive advantage in that it manufactures its own food. There was a wholesale, capital-light growth opportunity that the market wasn't thinking about.' (JC)

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KEY

- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**