STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 41 / 19 OCTOBER 2017 / £4.49

SHARES

WE MAKE INVESTING EASIER

ALSO INSIDE:
SKY, CARNIVAL, RSA, DOMINO'S PIZZA
& MORE

CHINA SLOWDOWN

WHY INVESTORS SHOULD STAY POSITIVE ON THE COUNTRY

HOW
TO INVEST
£200 A MONTH

SIX STOCKS
SET TO RESTART
DIVIDEND PAYMENTS

COMMODITIES:
POTENTIAL WINNERS
AND LOSERS IN 2018

Is a flurry of IPO announcements bad news?

We calculate 12 companies are about to float in the UK and nearly 20 more are rumoured

October and November are on course to be two of the busiest months for new stock market entrants this year. By my calculations there are 12 confirmed IPOs (initial public offerings) about to happen on the UK stock market and rumours of nearly another 20 companies set to float in the coming months or early in 2018.

The past few weeks has already seen numerous companies list on either London's Main Market or AIM including Scottish housebuilder **Springfield Properties (SPR:AIM)** and property investor **Warehouse REIT (WHR:AIM)**. Is this cause for celebration or concern?

WHAT THE RUSH MEANS

Some market commentators believe a rush of IPOs normally happens towards the end of a bull market rally. Excited investors are happy to invest in new names in the belief that all shares will go up in value.

The sellers of these businesses, quite often private equity firms, are exploiting this market situation by offloading many of their investments via IPOs while there is a window of opportunity.

Of those trying to float, it appears that niche investment funds have found it much harder to raise money than individual companies. For example, Impact Investment Trust and The People's Trust both had similar propositions and both failed to get enough money to float on the stock market this year. They wanted to invest in companies that benefited society, yet investors appeared to be nervous about how long it would take to make a positive return.

PennantPark Income Trust and Hipgnosis Songs Fund are two other recent examples of investment trusts which have failed to float.

SUCCESS CAN TURN INTO FAILURE

Getting enough support to proceed with an IPO doesn't necessarily mean the company or investment vehicle has passed a certain quality filter. There have been several recent high profile disasters with newly-listed companies issuing profit warnings fairly soon after their stock market debuts. Toilet paper maker **Accrol (ACRL:AIM)**, restaurant business **Comptoir (COM:AIM)** and services group **Van Elle (VANL:AIM)** spring to mind.

A widely-held view among experienced investors is to watch newly-listed companies from a distance to see how they perform on the market, before considering an investment. This should help to see if a company is feeling the effects of underinvestment under previous ownership (something that frequently happens with businesses owned by private equity); or whether its management team can cope with the pressure of running a publicly-listed business, among other factors.

The current lack of major political events in the UK (excluding Brexit negotiations), together with the continuation of a stock market bull run, could be the reasons why we're seeing a flurry of IPO activity. I know from chats with industry people that general elections in 2015 and 2017 and the Brexit vote in 2016 certainly caused many IPOs to be delayed or cancelled, as investors wanted to see how those events played out before making investments. It's now all systems go. (DC)

FORTHCOMING IPOS ON LONDON STOCK EXCHANGE*

Company	Activity
TI Fluid Systems	Automotive fluid storage firm
OG Graphite	Graphite miner
RHI Magnesita	Refractory products
Sosander	Fashion seller
Bakkavor	Microwave meal maker
M& Multi-Let REIT	Property investor
TMG	Administrative services
ContourGlobal	Power producer
Footasylum	Fashion seller
En+ Group	Power and aluminium producer
OnTheMarket	Property portal
Indian Pacific Resources	Iron ore miner

Source: Shares, Company announcements. *Set to list in Oct or Nov 2017

The Fundsmith Emerging Equities Trust (FEET) research team searches the world to find companies that make their money from a large number of everyday, repeat, predictable transactions and will benefit from the rise of the consumer in developing economies.

For example, Indofood sold 9 billion packets of Indomie noodles last year, Magnit welcomed 11 million shoppers a day, MercadoLibre sold over 50 million items on its website last quarter and Dabur's Hajmola tablets were taken 26 million times a day in India.

You may never have heard of them, despite their scale, but all can be found in the FEET portfolio.

Fundsmith LLP ("Fundsmith") is authorised and regulated by the Financial Conduct Authority and only acts for the funds to whom it provides regulated investment management and transaction arrangement services. Fundsmith does not act for or advise potential investors in connection with acquiring shares in Fundsmith Emerging Equities Trust plc and will not be responsible to potential investors for providing them with protections afforded to clients of Fundsmith.

Prospective investors are strongly advised to take their own legal, investment and tax advice from independent and suitably qualified advisers. The value of investments may go up as well as down. Past performance is not a guide to future performance.

FEET Performance, % Total Return

Year ending 31st August	2017	2016	2015	Since inception
FEET Share Price	+3.6	+21.5	-16.2	+15.5

Source: Financial Express Analytics.

www.feetplc.co.uk

Fundsmith
Emerging Equities Trust

Contents

19 OCTOBER 2017

10

18

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

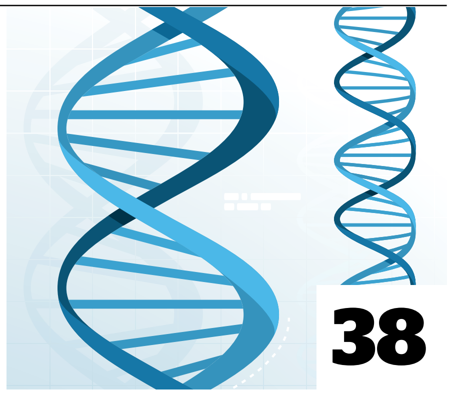
1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.

Contents



38

24

31

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

REPORTER: David Stevenson @SharesMagDavid

JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Emily Perryman, Tom Selby

PRODUCTION
Head of Design Rebecca Bodi
Designer Darren Rapley

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

MANAGING DIRECTOR Mike Boydell

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

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.

Many leisure companies are nursing big share price losses

It is too early to think about looking for bargains in the sector

The pains facing the leisure sector are clear to see when looking at share price performance for UK-quoted companies dependent on consumer spending.

At some point the sector will throw up some bargains, but we're not quite at that stage yet as there is still too much capacity versus demand. You should expect further earnings downgrades near-term.

Restaurant firms, most pub companies and theme park operators are battling a slowdown in trading and the outlook remains poor. Inflation is rising faster than wage growth, high levels of consumer debt are a concern and the prospect of rising interest rates could dent consumer sentiment.

Bowling and cinema are the only positive segments of the leisure sector judging by share price performance of relevant stocks.

We all like a treat, even in tougher times, and these two activities have a long history of being more resilient than people think. However, they aren't completely immune to a slowdown in trading. We'd rate bowling as the higher risk of the two activities from an investment perspective.

Our cinema stock preference is **Cineworld (CINE)** as it has greater scale than **Everyman Media (EMAN:AIM)** including overseas operations.

TROUBLES PILING UP

The Coffer Peach index, which tracks the performance of the pubs and restaurant industry, saw like-for-like sales in September fall by 0.9% across the UK; and down 1.6% in London.

Theme park and attractions operator **Merlin Entertainments (MERL)**, which is arguably a bellwether for the leisure sector, said on 17 October that it had experienced difficult summer trading due to terror attacks and unfavourable weather. Its outlook statement was also subdued.

ATTRACTIVE YIELDS... BUT SHARE PRICES COULD FALL FURTHER

Pub companies **Greene King (GNK)** and **Marston's (MARS)** have both seen their share price fall by more than a fifth this year due to tough trading conditions. That's pushed up their prospective dividend yields.

Greene King is yielding 6.2% and Marston's is on 7.1%. Investec analyst Karl Burns says he remains cautious on Marston's 'despite the attractive yield' as he believes earnings visibility continues to deteriorate. (DC)

LEISURE SECTOR - WINNERS AND LOSERS IN 2017

Casual dining / Takeaway food	Share price year to date
Patisserie	10% ↑
Restaurant Group	-8% ↓
Domino's Pizza	-10% ↓
Fulham Shore	-12% ↓
Richoux	-54% ↓
Tasty	-76% ↓
Comptoir	-77% ↓
Pubs and Brewers	
JD Wetherspoon	42% ↑
Young's	3% ↑
Mitchells & Butlers	1% ↑
Marston's	-22% ↓
Greene King	-23% ↓
Cinema Operators	
Everyman Media	107% ↑
Cineworld	21% ↑
Casual dining / Takeaway food	
Ten Entertainment*	25% ↑
Hollywood Bowl	13% ↑
Merlin Entertainment	-19% ↓

Source: Shares, SharePad. Data is 1 January to 17 October 2017
*Since IPO in April 2017

Inflation at five year high

Taking the temperature of stocks heading into the final months of 2017

Governor of the Bank of England Mark Carney says inflation is yet to peak despite reaching its highest level in five-and-a-half years of 3% in September.

A full percentage point above the Bank's 2% target, this reading is widely seen as increasing the chances of an interest rate rise on 2 November.

As well as putting Carney and his colleagues under pressure, the increase in inflation will also be uncomfortable for consumer facing industries like retail and leisure.

The news on inflation could be good news for pensioners as under the 'triple lock' guarantee the state pension rises in April by whichever number is highest out of the September inflation number, average earnings or 2.5%.

Inflation figures have also historically been used to determine ISA allowances. Chancellor Philip Hammond will be watched closely when he delivers his Budget on 22 November to see if there will be an increased limit.

Speaking to MPs on 17 October, Carney attributed the surge in inflation entirely to the fall in the pound and sterling slipped further as he noted a 'no-deal' Brexit was a threat to financial stability in Europe.

Chief EU negotiator Michael Barnier recently warned talks over a post-Brexit settlement were in 'deadlock'. (TS)

Jackpotjoy CEO in shock exit

Management shake-up deemed necessary for the group to achieve growth plans

ONLINE BINGO AND casino operator **Jackpotjoy (JPJ)** has announced a parting of the ways with chief executive Andy McIver a mere nine months after listing its shares in London.

Jackpotjoy says 'further operational expertise is needed to maximise future growth prospects through its core business segments'. Seasoned gaming executive Simon Wykes has been drafted in as group managing director.

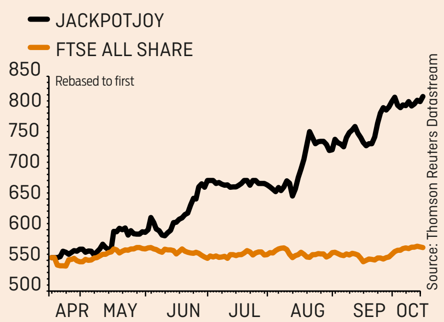
Wykes looks a canny appointment, having previously been CEO at Gala Leisure and managing director at Gala Coral, where he led the strategic turnaround of the bingo division.

Chairman Neil Goulden will become executive chairman of the £605m business which is best known for its *Jackpotjoy*, *Vera & John* and *Starspins* brands.

While the CEO's departure soon after switching its listing from Toronto to London is a potential red flag, Jackpotjoy did say that trading strength seen in the first half of its year had continued into the third quarter. Management are 'confident of meeting the upper end of market expectations' for 2017.

Investment bank Berenberg comments: 'A change in CEO at this time in the life of the company may not look optimal. However, we are convinced that this will have no negative impact on Jackpotjoy's operational focus – quite the opposite, in fact.'

It thinks Jackpotjoy's 'dominance' of the UK digital bingo market will ensure the group is a winner in the event of possible regulatory changes. (JC)



Commodity prices: potential winners and losers in 2018

Where next for copper, lithium, nickel and other metal and energy prices following 2017's bull-run?

This year's commodities bull-run could continue well into 2018 for many products, according to investment bank Macquarie. Most of the major metals have risen in price this year and Macquarie believes gold, silver, nickel and uranium have the best prospects over the next one to two years.

For gold and silver, we like **Polymetal International (POLY)** among the larger London-listed miners. **Glencore (GLEN)** is a good play on nickel. For uranium, look at **Berkeley Energia (BKY:AIM)**.

Copper prices have recently exceeded $7,100 per tonne and could ease back next year in value, albeit the longer term price outlook remains positive thanks to an expected supply deficit. **Kaz Minerals (KAZ)** is one of our preferred copper-related mining stocks.

The longer term losers could be palladium and rhodium, says Macquarie which highlights a potential long-term decline in demand as a result of the electric vehicle industry disrupting the petrol and diesel car sector.

Palladium and rhodium are primarily used to make catalytic converters – which aren't required in electric vehicles. 'Without their role in pollution control, what use do they have?' says the investment bank.

Lithium carbonate prices are forecast to average $11,496 per tonne in 2017, representing a considerable jump from the $8,406 average price in 2016.

However, Macquarie warns of an 'avalanche of supply' on its way and believes the metal, closely tied to the electric vehicle industry as a battery component, could fall back to $9,000 on average in 2018 and $7,688 in 2019.

Cobalt has shot up by 82% in price this year but Macquarie thinks its value, as well as lithium, has gone up too far given 'serious market tightness should not emerge until next decade'.

Longer term, lithium prices could improve once again; so too copper and nickel assuming that electric vehicles hit the mainstream from 2020 onwards.

Oil prices, as measured by the European Brent Crude standard, are currently trading at the same level at which they started the year, being just under $58 per barrel. They fell to $46 per barrel in the summer but have been recovering amid renewed tensions between Kurdistan and Iraq. (DC)

Glencore: refined nickel

MAJOR METALS -
PRICE PERFORMANCE SO FAR IN 2017 & FORECASTS FOR 2018 & 2019

	Price gain/loss	Current price ($)	2018 forecast price ($)	2019 forecast price ($)
Palladium	50%	1,006	875	875
Copper	29%	7,134.5	5,900	5,938
Zinc	24%	3,194	3,050	2,575
Nickel	18%	11,865	11,750	13,500
Gold	13%	1,303	1,350	1,375
Platinum	5%	945	1,063	1,194
Uranium	0%	20.3	24	27

Source: Shares, Reuters, Macquarie
*Prices taken 16 Oct 2017 - either per tonne, pound or ounce

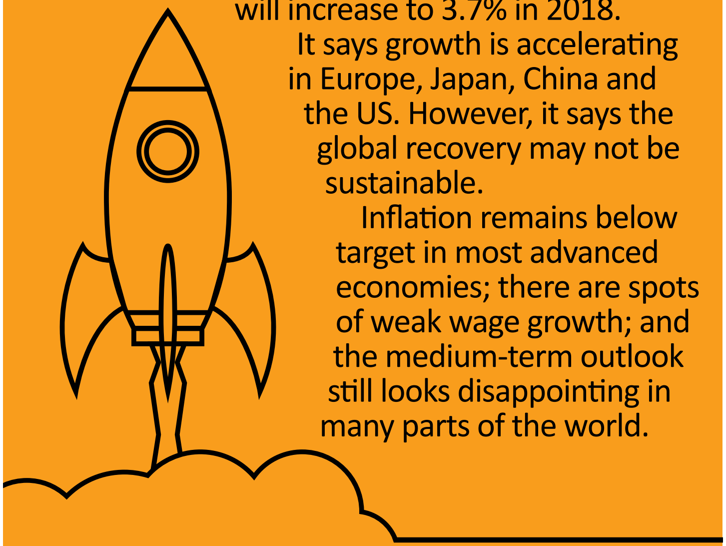

CONVICTION
We choose our own investment path, seeking out market-beating returns
At Jupiter we encourage our fund managers to have individuality of thought and the freedom to actively invest with conviction. It is this confidence to go our own way that, we believe, allows us to seek out market-beating returns.
For more than 30 years it's the way we have been looking after our clients' needs across multiple asset classes, including shares, bonds, multi-asset and absolute return.
Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested.
VISIT JUPITERAM.COM
JUPITER
Asset Management

3.7% IMF PREDICTS 3.7% GLOBAL GROWTH IN 2018

GLOBAL OUTPUT growth will increase by an estimated 3.6% in 2017 versus 3.2% last year, according to the IMF (International Monetary Fund). It believes the pace of growth will increase to 3.7% in 2018.

It says growth is accelerating in Europe, Japan, China and the US. However, it says the global recovery may not be sustainable.

Inflation remains below target in most advanced economies; there are spots of weak wage growth; and the medium-term outlook still looks disappointing in many parts of the world.



IN JAPAN, the Nikkei 225 reached its highest level in more than two decades on 11 October at 20,881. That level was last achieved in December 1996.

Speculation that Prime Minister Shinzo Abe is set to stay in power following the general election later this month helped support investor sentiment.

Investors kept the positive momentum going as the Nikkei 225 continued to surge, closing at 21,255 on 16 October.

NIKKEI 225 HITS HIGHEST POINT IN 21 YEARS

9%

STATIONER AND BOOKSELLER **WH Smith (SMWH)** grew sales in its Travel division by 9% in the year to 31 August. Pre-tax profit increased 7% to a better-than-expected £140m.

This continued strong growth means the Travel division's revenue has overtaken High Street for the first time and is now the largest art of the group in both sales and profit terms.

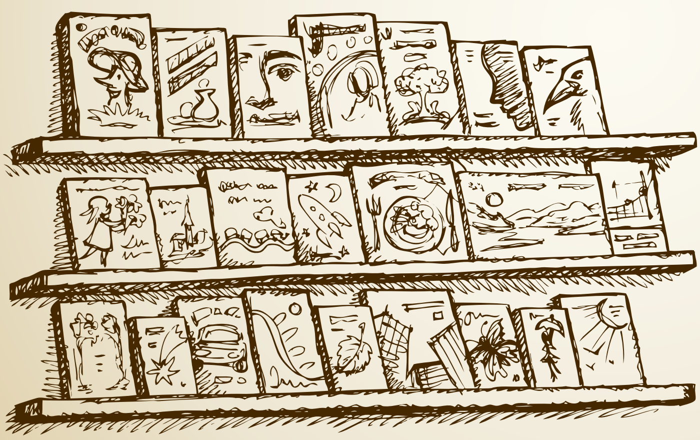
This is good news for long-term shareholders, since the traditional town centre business has been struggling for years, as online competition rises and high street footfall dwindles.

WH Smith has been building up the Travel business in stations and airports, while managing the decline of the high street estate.

Travel is a growing and resilient activity, as the sale of impulse products to a captive audience is all but immune to online competition.

Often the sole shop on a train station platform, WH Smith is able to generate strong sales while sustaining high margins.

During its 225th anniversary year, WH Smith also opened its 225th international store. (JC)



We don’t believe Carnival is sailing into troubled waters

Shares in the leisure giant have been marked down on fears that hurricanes will reduce appetite for cruises

Cruise operator **Carnival (CCL)** is a resilient company which is suffering temporary setbacks from events out of its control. We believe that 2018 is set to put the cruise liner on a stronger footing as earnings are forecast to show a considerable improvement on 2017’s anticipated numbers. Buy at £50.33.

Shares in Carnival currently trade on 15.8 times forecast earnings for 2018. That looks too low for a company of Carnival’s size, track record and brand strength.

Berenberg analyst Stuart Gordon says the market is being cautious due to the weak year that Carnival experienced following hurricanes Katrina and Wilma in 2005, assuming the same trend will happen following 2017’s hurricanes.

We don’t think this year’s hurricanes were severe enough to deter large numbers of people from wanting to holiday at sea.

While new bookings have been slower in September, UBS analyst Robin Farley says cancellations are only at 1% and its fourth quarter is well booked.

We believe the market will soon shift its attention to next year’s earnings. Net profit is forecast to fall to $2.59bn in 2017 versus $2.78bn a year earlier, according to investment bank Berenberg. However, net profit is then forecast to jump to $3.15bn in 2018.

CARNIVAL ↗ BUY
(CCL) £50.33
Stop loss: £40.27

Market value: £37.18bn

WHAT DOES CARNIVAL DO?

Carnival is the largest cruise company in the world and carries 48% of global cruise guests to locations such as the Caribbean, Mexico, Europe, Hawaii and Australia.

The business owns a range of brands including P&O Cruises and Cunard.

BOOST IN PASSENGERS

Farley at UBS is impressed by the cruise operator’s net yield, which in this context means total sales per available passenger cruise days excluding commissions, transportation and other expenses.

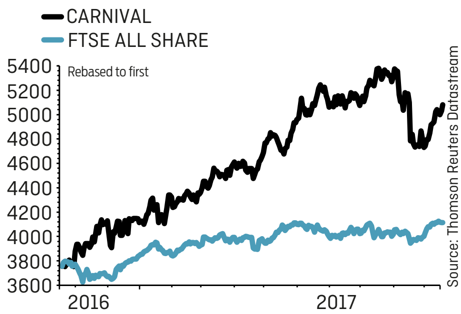
Farley argues net yield is very important because the industry’s costs are almost entirely fixed. Or, in other words, the cost of running a cruise ship is not that different if it is carrying 500 or 1,000 passengers. Yield increases can therefore be achieved with ‘very little incremental on-board expense’.

In the three months to 31 August 2017, Carnival’s net revenue yield of 5.1% beat guidance of 4%. The company also hiked the yield outlook for 2017 to 4%, up from guidance of approximately 3.5% in June.

The company says customers were drawn in by ‘price improvements’ in its Caribbean, European and Alaska operations.

Bookings for the first half of 2018 are well ahead on price, occupancy and volumes. This is impressive according to Farley considering that supply is higher for the industry next year. (LMJ)

BROKER SAYS: 5 4 1



Ascential's China Money boost

Recent share price underperformance and launch of new event in Asia make events firm attractive at current price

Now is the perfect time to invest in media group **Ascential (ASCL)** as there are several potential share price catalysts on the horizon. We're particularly excited about the launch next year of its *Money 20/20* event in China which could have a significant boost to earnings.

Nearer term, the company is set to hold a capital markets day on 14 November where it will provide more detailed information on its business, potentially resulting in more interest from analysts and investors.

Ascential is best known for running the prestigious Cannes Lions advertising festival. It joined the stock market in February 2016, having previously been owned by private equity firm Apax and Guardian Media and operated under the name of Emap.

The business has two divisions: Exhibitions & Festivals which accounted for 60% of its revenue and 70% of earnings in the first half of 2017; and the mainly subscription-based Information Services which made up the remainder.

WHY WE LIKE EVENTS COMPANIES

Events businesses tend to be cash generative and enjoy predictable revenues with plenty of recurring business.

ASCENTIAL BUY
(ASCL) 346p
Stop loss: 276.8p

Market value: £1.4bn

Investment bank Berenberg says Ascential differs from its competitors in that it has a smaller, more focused portfolio of brands. It notes the group has disposed of nearly one third of its brands and integrated two 'high-growth acquisitions'.

On this basis, it reckons the company can deliver double-digit earnings per share growth out to 2019.

On 12 October the company announced an agreement to launch a new version of its successful financial services-focused Money 20/20 event in China, to be held in November 2018.

Because of inherent differences between markets in this space there is limited risk of cannibalising existing business by launching in different geographies.

Berenberg estimates that if the Chinese event grew to the level of its Las Vegas iteration it could boost its 2019 earnings estimates by nearly 30%.

Although the new exhibition won't contribute to the bottom line for some time we expect the market to begin pricing in its potential over the coming 12 months.

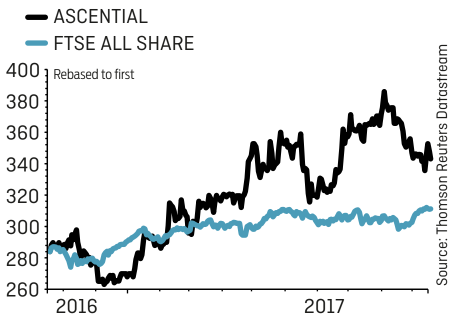
VALUATION NOT TOO DEMANDING

On this basis we don't see a 2018 price-to-earnings ratio of 17.4, based on Berenberg's forecasts, as too much of a stretch.

With strong cash generation enabling the company to steadily pay down debt, there is also the scope for further M&A activity which could augment growth prospects.

The free cash flow yield, a metric often used by private equity firms to identify targets which can deliver returns ahead of the cost of borrowing, at 7.3% suggests Ascential could itself be a takeover target. (TS)

BROKER SAYS: 7 1 2



RSA INSURANCE
(RSA) 614p

Gain to date: 8%
Original entry point:
565p, 22 December 2016

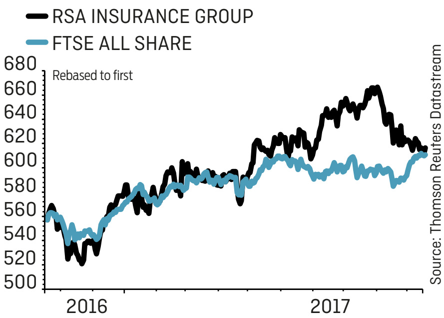
DON'T PANIC if a third quarter trading update from FTSE 100 constituent **RSA Insurance (RSA)** on 2 November reveals chunky catastrophe losses.

The market has already been pricing in bad news, as reflected by share price weakness over the past few months.

The insurer issued a brief trading update on 25 September which said notified losses at the time were well below reinsurance limits.

Panmure Gordon analyst Barrie Cornes last week downgraded his 2017 earnings per share forecast by 12% to 41p. He says other analysts will have to cut their forecasts to avoid RSA having to issue a profit warning for 2017.

'There is the possibility of a short term negative reaction to the share price in early November but we believe any impact would be relatively short lived,' he says.



SHARES SAYS: ↗
We chose RSA in late December 2016 as one of our top picks of the year. We remain positive on the stock despite near-term pressures on the share price. (DC)

BROKER SAYS: 8 7 3

HILTON FOOD
(HFG) 788.7p

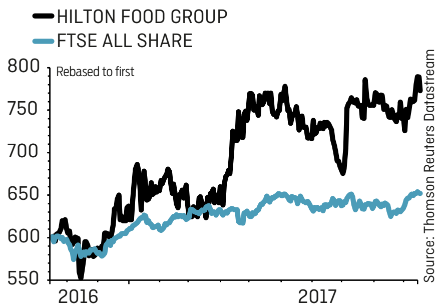
Gain to date: 10.4%
Original entry point:
714.5p, 20 April 2017

OUR POSITIVE call on retail meat packing specialist **Hilton Food (HFG)** is so far 10.4% in the money. We're running this winner for further upside, as the £571.5m cap is growing its volumes with supermarkets around the world and exporting its cash generative business model to additional territories with existing and new retail customers alike.

Supplying the likes of **Tesco (TSCO)**, Ahold Delhaize and Coop Danmark from state-of-the-art plants that use automation and advanced robotics, Hilton's recent deals include tie-ups with Portugal's leading food retailer Sonae, Woolworths Australia and Tesco Central Europe.

It recently announced plans to expand its retail meat packing capabilities into New Zealand. It will construct a new facility in Auckland, an extension of an existing site, in order to supply Countdown Supermarkets, a subsidiary of existing customer Woolworths.

The company has also raised £55.9m by placing new shares with institutional investors to help fund the £80.8m acquisition of Seachill, a leading chilled fish processor in the UK. The deal is expected to be earnings enhancing in the first full year of ownership.



SHARES SAYS: ↗
We regard Hilton as a relatively defensive investment. Strong cash generation and robust support from institutional investors are providing the firepower to fund exciting expansion. (JC)

BROKER SAYS: 5 0 0

FRIDAY 20 OCTOBER

FINALS	
ONCIMMUNE	ONC
TRADING STATEMENTS	
DECHRA PHARMACEUTICALS	DPH
INTERCONTINENTAL HOTELS	IHG
RECORD	REC
AGMS	
VAST RESOURCES	VAST

MONDAY 23 OCTOBER

INTERIMS	
BRAEMAR SHIPPING SERVICES	BMS
TRADING STATEMENTS	
GKN	GKN
AGMS	
CITY OF LONDON INVESTMENT	CLIG
GOLDPLAT	GDP

TUESDAY 24 OCTOBER

INTERIMS	
BLOOMSBURY PUBLISHING	BMY
GEAR4MUSIC	G4M
WHITBREAD	WTB
TRADING STATEMENTS	
ANGLO AMERICAN	AAL
BUNZL	BNZL
INTERNATIONAL PERSONAL FINANCE	IPF
RECKITT BENCKISER	RB.
ST JAMES'S PLACE	STJ
AGMS	
PREMAITHA HEALTH	NIPT

MORTGAGES-TO-CURRENT account provider **Lloyds (LLOY)** will issue a third quarter trading statement on 25 October. Investors will no doubt hope for a continuation of the positive trading seen at half year results (27 Jul) where Lloyds reported an 8% increase in underlying profit to £4.5bn.

Investors will have to wait until next February for an update on longer-term strategy as that is when Lloyds will reveal its plans for the 2018-2020 period.

The bank last week (12 Oct) said it would buy Zurich's pensions and savings business which will add £19bn of assets under administration.

WEDNESDAY 25 OCTOBER

INTERIMS	
GLAXOSMITHKLINE	GSK
METRO BANK	MTRO
TRADING STATEMENTS	
CENTAUR MEDIA	CAU
COBHAM	COB
LLOYDS	LLOY
AGMS	
GCP STUDENT LIVING	DIGS
PHOTO-ME INTERNATIONAL	PHTM
REDDE	REDD
TLOU ENERGY	TLOU

THURSDAY 26 OCTOBER

FINALS	
CONNECT	CNCT
DEBENHAMS	DEB
REDEFINE INTERNATIONAL	RDI
INTERIMS	
C&C	CCR
TRADING STATEMENTS	
INCHCAPE	INCH
KAZ MINERALS	KAZ
NATIONAL EXPRESS	NEX
RELX	REL
AGMS	
ALUMASC	ALU
ARGOS RESOURCES	ARG
AVOCET MINING	AVM
IMAGINATION TECHNOLOGIES	IMG
MILA RESOURCES	MILA
MATTIOLI WOODS	MTW
OPG POWER VENTURES	OPG
STANDARD LIFE UK SMALLER COMPANIES TRUST	SLS

THE MUSICAL instruments retailer **Gear4Music (G4M:AIM)** will report half year results on 24 October. We already know that sales grew 44% in the period to £31.2m, thanks to a previous trading update. The focus for the results will therefore be concentrated on profit margins and expansion plans.

Investors should pay close attention to earlier guidance that investment during the six month period has increased costs and 'restricted' margins in the short term.

ECONOMICS

UK		
NATIONWIDE		HPI
EX-DIVIDEND		
ANIMALCARE GROUP	ANCR	4.7P
AVINGTRANS	AVG	2.2P
BARRATT DEVELOPMENTS	BDEV	17.3P
BARRATT DEVELOPMENTS	BDEV	17.1P
BANKERS' INVESTMENT TRUST	BNKR	4.7P
CUSTODIAN REIT	CREI	1.61P
CARETECH	CTH	3.3P
DECHRA PHARMACEUTICALS	DPH	15.33P
EL ORO	ELX	2.42P
FERGUSON	FERH	73.33P
GALLIFORD TRY	GFRD	64P
HARWOOD WEALTH MANAGEMENT	HW.	1P
HAYNES PUBLISHING	HYNS	4P
ITV	ITV	2.52P
JD WETHERSPOON	JDW	8P
JP MORGAN EMERGING MARKETS INVESTMENT TRUST	JMG	11P
LOOKERS	LOOK	1.41P
MOSS BROS	MOSB	2.03P
MULBERRY GROUP	MUL	5P
NEXT FIFTEEN COMMUNICATIONS	NFC	1.8P
RICARDO	RCDO	13.88P
M&C SAATCHI	SAA	2.13P
FW THORPE	TFW	3.55P
WILLIAM HILL	WMH	4.26P

Click here for complete diary
www.sharesmagazine.co.uk/market-diary

AS INFLATION continues to rise, investors will be keen to see if **Whitbread (WTB)** can boost sales at Costa Coffee when the company reports its interim results on 24 October.

Earlier this year, Whitbread revealed sales growth more than halved at Costa to 1.1% in the 13 weeks to 1 June as people cut down on discretionary spending, including their daily caffeine hit.

Why recommencing dividend payments is a positive sign for investors

The same applies to companies paying their first ever dividends

The decision earlier this month by **Tesco (TSCO)** to reinstate dividends after a two year absence represents a major turning point in its recovery story. It suggests the company's turnaround, following an accounting scandal and slump in earnings, is making good progress.

Recommencing dividends or indeed paying dividends for the first time is a very positive signal for investors.

Respectively, it suggests earlier financial or operational problems have been fixed; or the business has reached a certain stage in its development where it is now financially capable of providing additional rewards to shareholders.

This article discusses various candidates for either dividend resumption or maiden payout including financial services groups **Royal Bank of Scotland (RBS)** and **Aldermore (ALD)**; as well as transport provider **FirstGroup (FGP)**, miner **Kaz Minerals (KAZ)**, leisure group **Dalata Hotels (DAL)** and publisher **Future (FUTR)**.

WHY DO COMPANIES PAY DIVIDENDS?

Historically the payment of a dividend has been the sign of a strong company. Theoretically it implies a business is generating more cash than is required to invest in maintaining its competitive edge. That spare cash creates a pot of money to fund dividends and/or share buybacks if it feels its shares are undervalued.

The poor rates of interest on cash savings in the UK over the past decade have led more people to invest in the stock market in hope of better returns. Companies paying a dividend have, in many cases, been particularly attractive to investors.

> SADLY THAT HAS ALSO LED TO SOME COMPANIES PAYING DIVIDENDS SIMPLY TO GET PEOPLE TO BUY THEIR SHARES

Sadly that has also led to some companies paying dividends simply to get people to buy their shares (and push the share price up) even though they cannot really afford to keep handing out cash or they have better uses for that money.

For example, the promise of a 7% dividend yield was a key reason why logistics group **DX (DX.:AIM)** managed to drum up so much interest for its stock market debut in February 2014 where it raised £200m.

Three years later DX revealed that it had won less courier and freight-related work than expected and that it was struggling with operational issues. A lot of its business has fixed costs so a drop in revenue was bad news. Its debt levels ballooned and the company was forced to suspend its dividend, leaving investors fuming.

THE TRUE COST OF STOPPING DIVIDENDS

Having to stop paying dividends because of financial issues has generally been considered a decision of last resort. Companies know they could alienate a chunk of their shareholder base if the income stream is cut off.

However, it can also be seen as sensible business practice if it means avoiding financial stress further down the line.

Let's now look at some companies primed to restart payments after fixing problems; and later in the article we'll look at some potential candidates for paying their first ever dividend.

DIVIDEND RESUMPTION CANDIDATES

ROYAL BANK OF SCOTLAND

The bank has not paid a dividend since 2008 when it bailed out by the UK Government in the teeth of the global financial crisis. Analysts believe the bank could be in a position to restart payments when it reports its 2018 financial results, meaning a first payment in early 2019.

It could be several years before shareholders see the 5%+ yields they previously enjoyed with the stock.

Investec forecasts a 5p per share dividend for the bank's 2018 financial year which implies 1.8% yield against the latest share price of 276.3p. The dividend is forecast to hit 10p in 2019 and 15p in 2020, the latter implying 5.4% yield using the current share price.

KAZ MINERALS

The copper miner last paid dividends in 2013. In 2014 it said low levels of cash generation and expenditure on growth projects didn't warrant a continuation of cash payments to shareholders, until its situation changed.

We're now at a turning point for the company. Its share price has rocketed over the past two years thanks to an improving copper price and successful launch of two transformational growth projects.

Some (but not all) analysts believe the miner could declare the return of dividends at the end of the 2018 financial year. The consensus forecast is 5c per share for 2018, rising to 14c in 2019, according to Reuters' data.

FIRSTGROUP

The bus and train operator hasn't paid a dividend since a £615m rights issue in 2013 to shore up the balance sheet and retain its investment grade credit rating. It needed the money normally used for dividends to pay off debt.

Pre-tax profit is expected to improve considerably over the coming years and net debt is

THE GOLDEN DIVIDEND RULES

Companies should only pay dividends when they have cash that is surplus to their business reinvestment needs.

They should avoid funding dividends out of debt or cash savings as payments would be unsustainable.

Fundamentally, ordinary dividends should only be paid out of cash generated from operations.

One-off 'special' dividends may also be paid from asset sales or from a build-up of cash on the balance sheet, but only if there isn't a better use for the money to improve the existing business.

declining. That's led analysts to believe the dividend will soon return.

Investec forecasts 2.6p per share for the financial year ending 31 March 2018, rising to 4.6p a year later.

FUTURE

The magazine publisher has a patchy past with many years of losing money. Fortunately the business is now getting back on track and is seeing growth in its e-commerce and events businesses.

Analyst forecasts imply adjusted pre-tax profit of £2.6m in 2016 rising to £7.8m this year, £13.4m in 2018 and £15.1m in 2019.

N+1 Singer estimates £10.8m net debt this year will turn into £5.8m net cash in the year ending September 2019.

Analyst Johnathan Barrett believes Future is at the right stage of its development to recommence dividends, having last paid cash to shareholders at the end of the 2013 financial year.

A forecast 0.2p per share for the year ending September 2018 should send a positive signal about the state of the business, even though it is only a token amount.

OTHER CANDIDATES FOR DIVIDEND RESUMPTION

Having skipped a year in 2016, financial services group **Standard Chartered (STAN)** could bounce back with dividends at the end of its current financial year.

LED lighting technology group **Dialight's (DIA)** dividend drought could soon be over. Having last paid a cash reward to shareholders at the end of its 2014 financial year, analysts now expect the dividend to return at the end of the current financial year.

MAIDEN DIVIDEND CANDIDATES

DALATA HOTELS

The company floated on the stock market in 2014 as a buy-and-build operator in the hotels space. It now has a portfolio of properties in Ireland and the UK.

Although further investment in properties and IT infrastructure is on the cards, Investec believes dividends will start to be paid once the 2017 full year results are reported in early 2018.

ALDERMORE

The banking group in August told shareholders that dividends could be considered at the end of the current financial year if its CET1 ratio exceeded 12%. This is a measurement of a bank's core equity capital compared with its total risk-weighted assets – or, in other words, a measure of its financial strength.

'Having up until now been in a capital consumptive position, the company is now generating surplus capital,' says Liberum. It believes Aldermore will start with 3p per share for the 2017 financial year, rising to 6.6p in 2018 and 8.5p in 2019.

However, this forecast might become redundant if Aldermore is taken over. As we were writing this article the bank received a takeover approach from FirstRand. (DC)

Are Domino's Pizza's sizzling sales a sign of better times to come?

We remain bearish on the stock despite better than expected trading update

The market has a love-hate relationship with **Domino's Pizza (DOM).** After its third quarter trading update, investors and analysts alike are split over whether it is bouncing back from weak sales growth or if it is still struggling.

News that Domino's delivered like-for-like UK sales growth of 8.1% in the 13 weeks to 24 September triggered a 10% rally in the shares on 10 October.

But we are not convinced that the pizza delivery firm's troubles are over. Increased competition and sluggish growth in the UK delivery pizza market are obvious headwinds and are compounded by a consumer spending squeeze.

When Domino's first floated on AIM in 1999, investors were drawn in by its rapid growth prospects which could be delivered without having to overspend.

The company, which holds the master franchise to the UK and some other European countries, mostly operates through another layer of franchising, where individual store owners pay upfront for a license and then deliver an ongoing share of sales as well as buying their ingredients from the company. According to the 2016 annual report, out of more than 1,000

stores only 16 were directly run by the company.

We will explore why some analysts are optimistic on a potential turnaround and why we are convinced by those who argue that Domino's is not a good investment.

WHO IS CONFIDENT ON DOMINO'S OUTLOOK?

Among a sea of bears, there are a couple of bullish voices including Peel Hunt analyst Douglas Jack.

He argues that self-help initiatives such as new technology, lower pricing and stronger advertising should benefit Domino's in the last quarter of this year and first half of 2018.

The importance of this emphasis on innovation is reflected in a 17.4% build in online sales in the most recent period, representing 75% of total sales (which Domino's calls system sales).

Domino's says its new advertising campaign 'The Official Food of Everything' has helped drive this increase in online sales, flagging a record 200,000 online orders – or 140 a minute on the last Saturday in September.

Numis analyst Richard Stuber, who is also a fan, says sales growth of 11.6% implies

Domino's is gaining market share in a delivered pizza market that is growing at 4% based on consultancy Parthenon's forecasts.

Stuber hiked his pre-tax profit expectations by 1% to £88.7m this year and raised earnings per share (EPS) expectations to 14.5p.

WHY NEW STORES COULD CANNIBILISE SALES

One of the biggest issues Domino's faces is oversaturation in the market and intense competition, which it hopes to tackle through increased price discounting and new store openings.

The company is on track to open 90 stores in 2017, with 58 already opened so far. Investec analyst Karl Burns is not convinced that new store openings are necessarily good for business.

The issue with Domino's expansion is that it is focused on existing trading areas instead of new geographic territories, meaning two separate branches could compete for the same customers.

In August, the company acquired a 75% stake in 25 existing Domino's stores in London for £24m, but Liberum analyst Wayne Brown says it paid 'a very high price tag' to gain this exposure.

According to Brown, if the stores contributed approximately £0.5m at the busiest time of the year between August and December, this suggests a profit of £1.5m to £1.6m for the full year.

Brown is not convinced the deal was the right move, regardless of valuation, as the stores are underperforming and flags Domino's 'chequered history' with direct ownership of its outlets.

In the early 2000s, the business found it difficult to make money from its UK stores due to poor management, leading to its decision to sell them back to franchisees, says Brown.

> **IT IS FOCUSED ON EXISTING TRADING AREAS INSTEAD OF NEW GEOGRAPHIC TERRITORIES, MEANING TWO SEPARATE BRANCHES COULD COMPETE FOR THE SAME CUSTOMERS.**

HOW RELEVANT IS THE OVERSEAS OPERATION?

Overseas, the London-listed Domino's is performing well with like-for-like growth rising 20.4% in Switzerland, driven by lower menu prices while sales in Norway jumped 14.6% in the 13 weeks to 24 September.

However, the overseas business only represents approximately 8.7% of overall group revenue.

Langton Capital analyst Jack Brumby argues that while overseas sales are growing, it will be 'some time before they make a telling contribution'.

With the shares trading on 21.9 times forecast earnings, Domino's is not cheap and Brumby says investors are paying a high price for future growth.

On the reverse side he acknowledges it is cash-generative with a strong brand and high-margin business model.

WAS SALES GROWTH ALL THAT IMPRESSIVE REALLY?

Liberum is dismissive of the latest sales growth and argues nothing has changed as it was driven by adverse weather and weak comparatives instead of a strong trading performance.

Sales growth was partially supported by a gross margin investment of up to £4m in July and this strategy in the future could lead to further margin pressure, according to Brown.

Berenberg's Ned Hammond says Domino's did not rule out absorbing more costs for franchisees too and points out like-for-like growth may not necessarily lead to higher profits.

SHARES SAYS: ↘

While Domino's has delivered third quarter sales growth, we are not convinced it reflects a genuine improvement in trading and argue that competition remains a key threat against a difficult industry backdrop. The company's store opening programme also threatens cannibalisation of sales. (LMJ)

BROKER SAYS: 5 6 2

CHINA SLOWDOWN

WHY INVESTORS SHOULD STAY POSITIVE ON THE COUNTRY

The 19TH national congress of the Communist Party of China has begun and represents one of the most important political events this year. President Xi Jinping is expected to cement his position by having his allies promoted into positions of power in the party and the government.

The congress, which began this year on 18 October, takes place every five years. As well as positions being given out, it also reviews past policies and hands out new ones.

Xi's keynote speech is likely to concern pollution and anti-corruption. There may also be an update on his plans to reform state-owned enterprises

(SOEs). He wants to make changes to shareholder structures and increase M&A activity as well as measures to improve 'operational efficiency'.

Investors around the world will be studying the event closely for signs of how China plans to drive its economy in the future. Economic growth has been slowing in recent years, yet the pace remains considerably ahead of most major markets in the world.

We explore the congress and China's economic activities in this article, as well as talking to several fund managers about whether investors should increase exposure to the country as part of a diversified portfolio.

GROWTH SLOWDOWN

China's GDP growth rate was consistently in double-digits or close by for a number of years. In previous congress meetings, a high GDP growth rate was set and aggressively pursued.

The leadership is now accepting that growth rates are slowing although the economy continues to expand.

In a nutshell, China is attempting to move its economy towards being consumer driven and away from being export led, fuelled by low cost manufacturing.

The emerging consumer-based economy in China is home to some of the most innovative companies on earth. There are plenty of ways for UK investors to obtain exposure to the potential winners of China's economic push.

Companies like e-commerce giant Alibaba, internet company Baidu, and tech firm Tencent have a vast domestic market and some are listed on stock exchanges in other parts of the world. These stocks are likely to appear in many China-themed funds owned by UK investors.

The vast majority of larger Chinese companies are listed on the Hong Kong Exchange, although Alibaba has a New York Stock Exchange listing, indicating the global reach and appeal of these burgeoning Chinese enterprises.

While Chinese companies will also be listed on a domestic exchange such as the Shanghai Composite Index there have been restrictions with access to these markets. However, accessing Chinese A-shares (domestic Chinese equities) has been getting easier in recent times.

In 2014, the Hong Kong Shanghai Stock Connect enabled investors to access A-shares via the Hong Kong exchange. It also allowed Chinese investors access to the Hong Kong market. Towards the end of last year, the Hong Kong Shenzhen Stock Connect was opened as well, giving investors access to China's more tech heavy exchange.

It's also possible to use exchange-traded funds to gain exposure to Chinese stocks. If you were seeking exposure to some of the largest stocks on both the Shanghai and Shenzhen exchanges, **CSOP Source FTSE China A50 UCITS ETF (CHNA)** is an example of a UK-listed ETF providing relevant exposure. It tracks the performance of 50 companies.

For those seeking greater diversity through a passive vehicle like an ETF, a relevant product is **Lyxor CSI 300 A-Share UCITS ETF (CSIA)**. This ETF tracks 300 stocks in the China A-shares range by market cap.

INVESTOR SENTIMENT

Investors' enthusiasm for China shifts from one year to the next. But fears of an economic slowdown and its growing debt burden seem to be lessening, so many are revisiting China.

You'd have to have been living in a cave for over a decade not to be aware of China's growing equity markets. In recent years they have come to the fore in the news but not always for the right reasons.

In 2015 the Shanghai's Composite Index lost a third of its value in just under a month and on the opening day's trading of 2016, the market was suspended twice due to wild price movements.

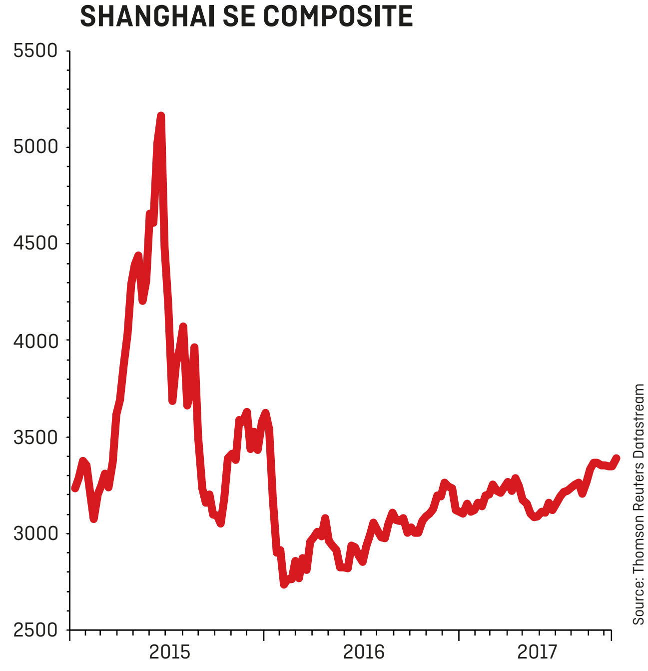
Charlie Awdry, portfolio manager of **Henderson China Opportunities Fund (GB00B5T7PM36)** comments: 'We always say to people that this is a niche asset class at the far end of the risk spectrum and that anything can happen in China.'

VOLATILITY VS RISK

Jan Dehn, head of research at emerging markets asset manager **Ashmore (ASHM)**, says it's important to make a distinction between volatility and risk in the Chinese market.

Dehn explains that while China's equity markets are well developed, its fixed income or bond markets are less so. He says this leaves Chinese investors, who according to him save 50% of their wages a month, with just equities and property to invest in.

If China's entering a bear market there's little option for domestic investors but to short the stocks, namely betting that they will fall in value. That can cause the market to be volatile, raising the potential for wild swings in share prices.



> THE DEBATE ON CHINA TRANSITIONING FROM AN INFRASTRUCTURE INVESTMENT HUB TO MORE OF A CONSUMER LED ECONOMY IS ONGOING AND VITAL FOR INVESTORS

Volatility doesn't necessarily translate to risk. For example, a company in danger of going bankrupt is a risk.

WHAT'S CHINA'S SHARE OF GLOBAL ECONOMIC GROWTH?

China accounted for 28% of global economic growth in 2016. This is a greater share than the US, Europe and Japan combined.

With China's A-shares finally being included into MSCI's emerging markets index from next year, an emerging market ETF will track China's equities but only 222 Chinese stocks are being included. These companies are also the large cap, SOE companies.

We think the best way to capture China's potential upside is through actively-managed investment funds and there are a lot of products covering different parts of this high growth market.

THE EXPERT'S VIEW ON THE CHINA CONGRESS

ALL EYES ARE now on Beijing and the political and economic policy shifts that will take place in what should be a highly informative week. Providing President Xi Jinping can maintain control, markets could warm to the prospect of reforms and sustainable growth.

If his influence is diminished and Party apparatchiks establish a more committee-led leadership style, China could press the accelerator when it comes to fiscal stimulus and GDP growth. That could bring a near-term sugar rush but leave investors with a debt-fuelled hangover and greater risks further down the line.

The 63-year old Xi Jinping looks like a shoo-in for a second term as General Secretary of the Communist Party and President of the People's Republic of China. The real interest may lie in who makes it onto the Politburo, as the majority of the 25-man body will be stepping down this time around, and particularly the seven-man Politburo Standing Committee, since five of its members are due to retire.

This reshuffle will open the way for others to step up and stake a claim for even higher office in 2022 – Xi Jinping and Premier Li Keqiang both made it onto the Politburo Standing Committee in 2007 on their route to the very top.

It will therefore be important to see who is promoted and whether they lean toward Xi's market-pleasing agenda or not.

President Xi wants to keep cracking down on corruption and stop debt spiralling while keeping growth on track and the currency strong.

This is a difficult juggling act. Reducing debt could mean slower growth, albeit growth with more reliable long-term foundations.

If Xi's influence is in any way diluted by the changed composition of the Politburo after the showpiece conference in Beijing there is a chance that the Party will embrace greater debts in exchange for faster growth in the short term and wobblier foundations in the long term.

Russ Mould, investment director, AJ Bell

SMALLER COMPANY OPPORTUNITIES

Some China-focused funds will concentrate on parts of the market where they see value, such as smaller companies which are overlooked and possibly mispriced by the market.

Tiffany Hsiao, lead manager on **Matthews Asia Funds China Small Companies (LU0721876364)**, says small-cap companies in China are at the forefront of the country's economic shift away from fixed asset investments toward innovation, consumption and services.

However, a recent note by Matthew Hodge, senior equity analyst at Morningstar, says 'China's increasing reliance on fixed asset investment to drive economic growth has the unwelcome impact of growing debt, declining productivity and a diminishing pool of projects worthy of investment'.

The debate on China transitioning from an infrastructure investment hub to more of a consumer led economy is ongoing and vital for investors. Hsiao's fund contains a lot of consumer staple stocks which if China is moving towards a consumption economy could do very well.

The fund's top holding Silergy Corp makes up for 6.2% of assets and is listed on the Taiwan Exchange. The company is a tech stock and has returned 52.2% year to date.

The fund's second largest holding Genscript Biotech has returned a whopping 122% year to date.

> **CHINA'S INCREASING RELIANCE ON FIXED ASSET INVESTMENT TO DRIVE ECONOMIC GROWTH HAS THE UNWELCOME IMPACT OF GROWING DEBT, DECLINING PRODUCTIVITY AND A DIMINISHING POOL OF PROJECTS WORTHY OF INVESTMENT**

FUTURE TECH LEADER

When it comes to technology. Dehn at Ashmore says China is investing more in tech than the US and Europe combined and says it could emerge as a global tech leader.

Hsiao says her fund focuses on innovative, efficient and sustainable growth companies, with an emphasis on firms oriented toward domestic demand and rising income levels.

'Small-cap companies tend to thrive in productivity and value-enhancing industries such as automation, health care, e-commerce and education,' says Hsiao, adding that this is reflected by the constituents of the fund portfolio.

She also believes that not only are Chinese small caps at the forefront of the country's shift to a consumer-based economy but also that the smaller companies are less volatile than large cap SOEs as they are likely to carry less debt.

'We believe that small caps in China offer very attractive risk-adjusted return potential compared with equity markets globally.'

LARGER COMPANY OPPORTUNITIES

Henderson's China Opportunities Fund focuses more on the larger Chinese companies, most of which are listed on the Hong Kong exchange.

This is where Chinese companies have tended to list, using the 'one country, two systems' principle since Britain passed the territory back to Beijing in 1997.

Henderson fund manager Charlie Awdry says one of the more unusual companies his fund owns is Kweichow Moutai which makes a Chinese spirit. 'They're like the Diageo of China,' he says. The stock has returned 62.8% year to date.

'China comes and goes out of favour. In 2007 investors were in love with China then fell out of love with it. Now people who were trying to ignore it, can't,' says Awdry.

He's a proponent of China's successful move into a consumer based economy. He claims that companies in the Henderson China Opportunities Fund should do well whether debt goes up or

loans from their balance sheets.

Once these loans are turned into tradable bonds they can be sold into a growing mutual fund industry.

This could mean that Chinese banks, used primarily for long term lending to local government vehicles to build infrastructure, would now be able to offer asset management services to the burgeoning middle classes.

One of President Xi's aims for SOEs is to reform financial institutions so exposure to the large Chinese banks could well pay off for investors.

down or if there's a cyclical wobble in the economy.

That's because Awdry's holdings are driven by consumer demand and typically have good cash flow. His two top holdings, Alibaba and Tencent, both have over 9% of the fund's assets invested in them.

Henderson is not alone in having big stakes in these tech giants. Both **Fidelity China Special Situations (FCSS)** and **Baillie Gifford Greater China Fund (GB00B39RMM81)** have these companies as their top two holdings.

'Alibaba and Tencent are kings of mobile payment,' says Gary Monaghan, investment director at Fidelity. Mobile payment is a much more popular way to pay than credit cards in China.

While China's GDP growth may be slowing, its large consumer stocks are not. Alibaba has been growing at 50% a year for the last five years in revenue terms. Shares in Alibaba and Tencent have returned 110% and 87% year to date respectively; so it is not surprising that they are popular with fund managers.

OTHER SECTORS OF INTEREST

While China's burgeoning tech sector is highly attractive, there is also interest in some of the more traditional sectors like banking. Henderson's Awdry has positions in two of the largest state-owned banks, China Construction Bank and the Bank of China.

Shares in China Construction Bank have returned 16.8% year to date while Bank of China has gained 18%. While those figures aren't as impressive as the consumer stocks, they are still good returns in investment terms and they also offer dividend yields in the region of 4.5% to 4.7%.

Ashmore's Dehn says there's going to be a 'dramatic structural change in Chinese banks in the next decade'. He believes they are becoming more like Western banks and offloading non-performing

THE NEGATIVE VIEW ON BANKS

Banks aren't for everyone though. Mike Gush, investment manager on Baillie Gifford's Greater China Fund, says his fund hasn't held a Chinese bank for a long time. He's concerned about the level of growth they can achieve especially if capital requirements become more stringent.

However, he does hold China Taiping Insurance, a state-owned enterprise. He believes there are long term growth prospects for the insurance industry in China. The fund also has a significant holding in Ping An Insurance.

Both the Fidelity and Henderson experts like the insurance sector, with the latter having 4% of his fund's assets in Ping An while Fidelity invests in two state owned insurers, China Pacific and China Life.

The attractiveness of insurance companies in China is a consequence of the rise of middle classes and their need for the companies' services. Year to date, shares in China Pacific have returned 32%, China Life 19.6% and Ping An 64.8%. For the insurance sector, this is phenomenal performance compared to their developed market counterparts.

IS THIS THE END FOR INFRASTRUCTURE INVESTMENTS?

Given the potential returns available from both consumer stocks and financial institutions it would seem investors with exposure to China do not need to rely on the country's large scale infrastructure investments that epitomised the country for so many years.

However, China's 'One Belt, One Road' (OBOR) plan announced in 2013 by President Xi is one of the most ambitious infrastructure projects to date.

Dubbed by some as a modern-day Marshall Plan, China's initiative will build roads, ports and railway tracks along ancient trading routes to Asia, Europe, the Middle East and Africa.

That should support long-term growth and development in the economies involved through better connectivity and help cement China's global influence.

While difficult to quantify the level of investment needed at this stage, China Development Bank alone has reserved $890bn for over 900 projects, highlighting the magnitude of this undertaking.

The scale of the project is unlike anything seen in the modern era, hence the comparison to the Marshall Plan. However, economic think tank Oxford Economics estimates that by 2050 the OBOR region will contribute 80% of global GDP growth, with China's share remaining broadly stable at around 40%.

WHAT DOES THIS MEAN FOR THE MINING SECTOR?

Fears that Xi's reforms would negatively impact mining companies seem unfounded if this huge undertaking is to move forward.

Investec analyst Hunter Hillcoat comments: 'The 19th Communist Party national congress has cast a pall of uncertainty over the country's commodity demand. However, we expect incumbent president, Xi Jinping, to emerge in a stronger political position and this should allow more infrastructure investment (both conventional and smart grid) and a strong emphasis on energy sustainability with increasing focus on renewables.

'We expect China's policies to underpin demand prospects for most base metals, carbon steel making raw materials and precious metals with predominantly industrial uses, such as palladium and rhodium'.

The global connectivity initiative, aiming at creating a better infrastructure network spanning 65 countries covering 60% of the global population and about one third of global GDP is daunting.

Its success will show that while China can transition its economy towards being consumer based, it will still need the vast amounts of raw materials that for so long was the hallmark of the Chinese economy.

> **WE EXPECT INCUMBENT PRESIDENT, XI JINPING, TO EMERGE IN A STRONGER POLITICAL POSITION AND THIS SHOULD ALLOW MORE INFRASTRUCTURE INVESTMENT AND A STRONG EMPHASIS ON ENERGY SUSTAINABILITY WITH INCREASING FOCUS ON RENEWABLES**

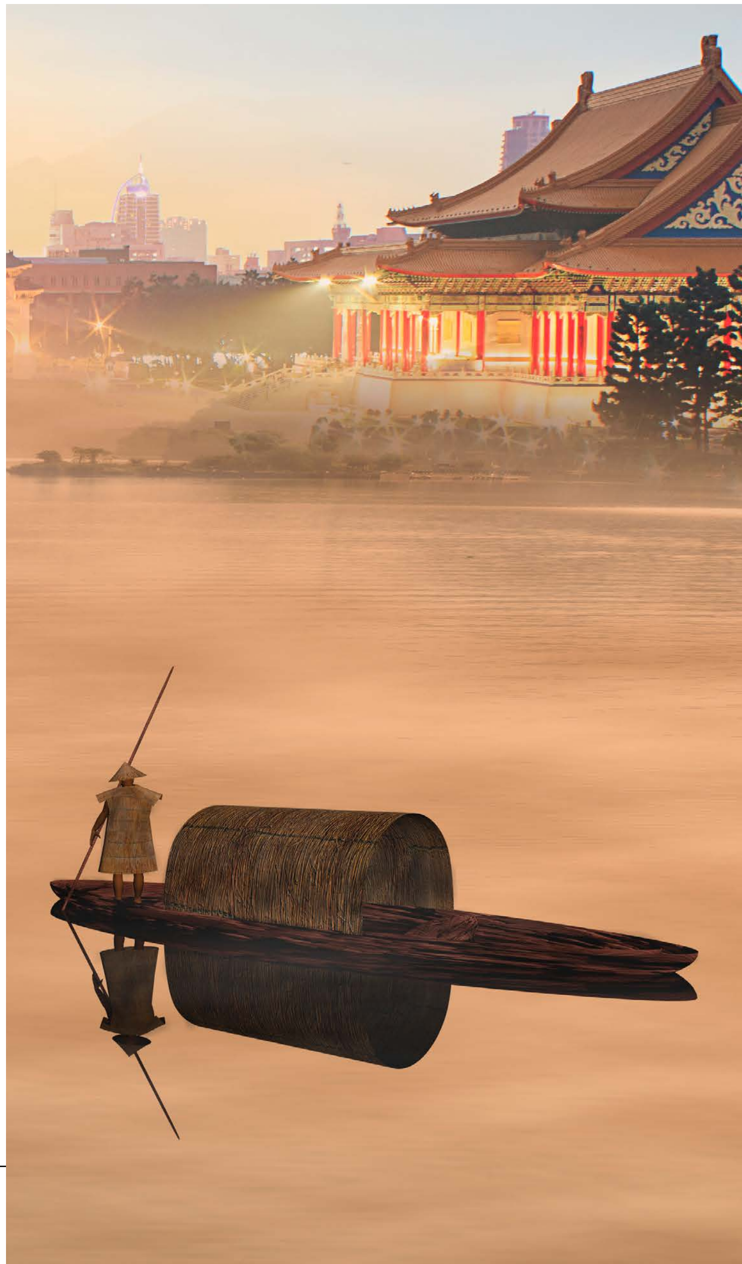
LONGER-TERM APPEAL

China has its doubters, as you might imagine. American investment manager Jim Chanos famously shorted the country when he realised that it was building enough office space for every man, woman and child in China.

But with its financial reforms and global leaders in the tech space, it's a country with as much investment potential as anywhere in the world.

Given the many different routes to access Chinese markets such as passive ETFs, investment funds and trusts all helped by initiatives such as the Hong Kong Stock Connects, now is the perfect time to invest in China, in our view.

With President Xi's mandate most probably being strengthened after congress finishes, hopefully the volatility that has plagued the country's equity markets may die down. (DS)



Bargain trusts on the hunt for 'ten-baggers'

Several UK small cap investment trusts are trading at wide discounts

Investment trust shares can trade either at a discount or a premium to their underlying assets or net asset value (NAV), depending on factors such as current market appetite for the strategy or the performance track record of the manager.

While share prices that trade at a discount to NAV are quite common for closed-ended funds, sometimes these discounts become unduly wide or narrow and do not adequately reflect the short-term risks to performance or opportunities to make gains.

Within the Association of Investment Companies' (AIC) UK Smaller Companies sector, which is facing into myriad uncertainties following the vote for Brexit, there are presently some superb managers and trusts that investors can pick up on double-digit discounts.

HEAVILY DISCOUNTED TRUSTS

Those trading on the deepest discounts include the **SVM UK Emerging Fund (SVM)** at 25.5%, **Gresham House Strategic (GHS:AIM)** on a 21.4% discount and **JPMorgan Smaller Companies (JMI)** on 19.7%. Gresham House Strategic is an interesting case in point. Focused on smaller firms, it takes large concentrated bets on stocks, owning stakes in companies ranging from **Be Heard (BHRD:AIM)** and **Tax Systems (TAX:AIM)** to **Northbridge Industrial Services (NBI:AIM)**, but with **IMImobile (IMO:AIM)** speaking for 34.5% of portfolio NAV.

The trust's sharp discount assumes 1.1m shares in IMImobile will be sold to two other Gresham House vehicles at 193.5p per share as part of a rebalancing exercise, expected to happen by the end of 2017. The discount should be eroded once IMImobile becomes less dominant in the portfolio.

JPMorgan Smaller Companies' rating looks unduly harsh, given managers Georgina Brittain and Katen Patel have proven pedigree in picking small cap winners, among them flooring industry consolidator **Victoria (VCP:AIM)**, premium mixers phenomenon **Fevertree Drinks (FEVR:AIM)** and brick maker **Forterra (FORT)**.

Also unloved is **Montanaro UK Smaller Companies Trust (MTU)**, languishing on a 20.5% discount. With a bottom-up, quality focus, the trust's portfolio positions include promotional merchandise supplier **4Imprint (FOUR)**, asset manager

Rathbone Brothers (RAT) and pork-to-poultry products supplier **Cranswick (CWK)**.

> UK SMALL CAP TRUSTS IN GENERAL ARE OUT OF FAVOUR

Montanaro Asset Management's Tom Norman-Butler says there are two main reasons why the trust trades at a discount. The first is that UK small cap trusts in general are out of favour. The second is the 'mid-term' performance hasn't lived up to the long-term track record.

'This is why in June 2016 – the day after Brexit to be precise – Charles Montanaro returned to the helm as manager of the trust. Since then, the portfolio has been refreshed, the management fee reduced to 0.5% per annum and additional cost savings made such that trust is now one of the most competitively priced in the sector,' Norman-Butler says.

'More importantly, we are truly excited about the prospects of the companies held in the trust. If investors look under the bonnet, we feel that they will share our enthusiasm which should help bring the discount in.'

Investors can also bag trusts with superior 10-year share price total return records, according to AIC /Morningstar data, on discounts too. These include Harry Nimmo's **Standard Life UK Smaller Companies (SLS)**, which has an excellent long-term track record and swaps hands for a 5.1% discount to NAV; downside risk is limited by the board's commitment to buy back shares to maintain the discount at narrower than 8%.

The others are the Mike Prentis-steered **BlackRock Smaller Companies (BRSC)**, **Henderson Smaller Companies (HSL)** and **Invesco Perpetual UK Smaller Companies (IPU)**.

Trading at a modest 2.5% discount is **Miton UK Microcap Trust (MINI)**, the Gervais Williams and Martin Turner-managed portfolio focused on identifying companies driving productivity improvements. Names that presently pass muster with the duo include app distribution platform **Crossrider (CROS:AIM)**, telecoms billing and customer relationship management software play **Cerillion (CER:AIM)** and the gift packaging products manufacturer **IG Design (IGR:AIM)**.

PRICED AT A PREMIUM

Shares is an admirer of Philip Rodrigs, the manager of **River & Mercantile UK Micro Cap (RMMC)**, one of a trio swapping hands for a premium. Net asset value continues to grow rapidly. Drivers of performance including robotic automation process technology designer **Blue Prism (PRSM:AIM)** and mobile advertising platform **Taptica (TAP:AIM)**.

A curious case is **Downing Strategic Micro-Cap (DSM)**, trading at a 5.5% premium despite being launched as recently as May and the fact

two debut holdings have materially disappointed. In its maiden portfolio update (8 Aug), the board announced the trust was 32.21% invested through acquisitions of holdings in five companies; these holdings reflect the investment philosophy and objectives of the trust, which takes strategic stakes of over 3% and engages with management teams to drive longer-term value.

These positions include **AdEPT Telecom (ADT:AIM)**, a telecommunications provider with strong cash flows, 'good, sticky revenues' and a CEO, Ian Fishwick, with acquisitive nous who has earned the trust of fund manager Judith MacKenzie. Another is **Redhall (RHL:AIM)**, a manufacturer of high integrity products and solutions for the nuclear, defence, decommissioning and oil and gas industries, which recently issued (4 Oct) a profit warning blamed on project delays.

Cake decorating, food ingredients and premium bakery business **Real Good Food (RGD:AIM)** is another Downing investment that hasn't paid off, yet, having issued damaging profit warnings and seen substantial management changes due to poor corporate governance and controls. These issues are now being addressed by new management.

'We suspected there were undisclosed related party transactions,' explains MacKenzie, who took a board seat in June when Downing invested (subscribing for new shares and providing a secured loan).

MacKenzie confesses 'we underestimated the challenge of the corporate governance that we needed to address, but we got involved and made changes pretty quickly.' MacKenzie still believes Real Good Food is 'a bit of a hidden gem' and remains confident in the fundamentals of the business. (JC)

How to invest £200 a month

We explain how to put a small amount of money to good work via investing in funds

Investing isn't just for wealthy people with enormous lump sums of money at their disposal. It's possible to build up a sizeable nest egg by saving just £200 a month.

How you put that money to work depends on whether you're new to investing or already have a solid portfolio.

It is fair to say that £200 is a healthy amount of money to put aside each month. If you manage to invest this for 20 years you could build up an ISA portfolio worth nearly £83,000, assuming investment growth of 5% a year after charges.

To achieve this growth it's vital to get your investment strategy right.

YOUR INVESTMENT PLAN

Hannah Purslow, spokesperson for AJ Bell Youinvest, says the key is to create a diversified portfolio while also keeping trading costs low.

Funds rather than shares will be the most cost-effective way of diversifying your portfolio because they provide access to a whole raft of underlying stocks. You could choose a few funds which invest across different assets, regions and sectors.

Many investment platforms only charge you £1.50 or so to make an investment in a fund. That works out at 0.75% of your £200 monthly transaction.

If you think that's too high, why not wait three months until you have £600 of cash in your ISA or SIPP (self-invested personal pension) and then make the investment. The £1.50 purchase fee would then only equate to 0.25% of your £600 investment.

> IF YOU FORGO YOUR DAILY £2.70 MEDIUM LATTE FROM STARBUCKS, YOU'RE LOOKING AT A SAVING OF UP TO £81 A MONTH (£2.70 X 30 DAYS) OR £972 A YEAR

In the latter situation, after a year you could have invested in four different funds, having invested £2,400 across the 12 month period. That would certainly put you off to a good start with building up a decent size investment portfolio over time.

MULTI-ASSET FUNDS

A multi-asset fund might be a good starting point. A professional fund manager invests in a wide range of assets, regions and sectors and rebalances on your behalf. You can select the fund that best matches your attitude to risk and time horizon.

An example is **Premier Multi-Asset Global Growth (GB00BTHH0G25)**. It invests at least 75% in equities and the remainder in bonds and alternative assets in developed and emerging markets. Like many active multi-asset funds it has a high ongoing charge of 1.81%.

A cheaper alternative is a passive multi-asset product, such as the Vanguard LifeStrategy fund range or one of AJ Bell's Passive funds.

These funds track indices rather than employing a fund manager to make investment decisions. They provide blended exposure to assets such as equities, bonds and (in the case of AJ Bell) property according to risk appetite and have low ongoing charges.

Before making any investment you should ensure you have sufficient cash savings to fall back on in case of emergency. Michael Harvey, investment manager at Hargreave Hale, recommends having cash reserves equivalent to three to six months' regular expenditure.

INVESTORS WITH A SOLID PORTFOLIO

Even if you already have a solid portfolio, you'll need to decide whether to put your extra savings into current investments or buy new ones.

Harvey suggests thinking about your sector weightings. 'There are specific concerns with some sectors, such as utilities, which may be hit by rising interest rates; and the leisure sector, which could be impacted adversely by a slowdown in consumer spending. An existing investor may want to review these sectors and reduce their exposure if appropriate,' he says.

'In addition, with the current ongoing Brexit negotiations affecting sentiment towards the UK, as well as sterling exchange rates, international exposure should also be reviewed and increased if currently underweight.'

Another factor to consider is whether your portfolio's risk weighting has changed over time. If some strongly-performing investments bump your portfolio's shares allocation from 40% to 70%, your portfolio will be at greater risk of a big dip in value if the stock market were to fall.

Assuming your capacity for risk has stayed the same, you could use your £200 a month to invest in assets that return your portfolio to its original risk weighting.

You could also use the gains from your outperforming investments to buy more of the underperforming investments.

Before doing this, it's a good idea to work out why a particular investment has underperformed.

Joe Roxborough, chartered financial planner at Ascot Lloyd, says if a fund manager performs poorly while adhering to their original intentions and making educated, rational decisions, then a drop in price may signal the time to invest further.

But if a manager has a scattergun approach and contradicts their initial intentions, finding an alternative may be wise, he says. (EP)

HOW TO SAVE AND INVEST MORE MONEY

It's possible to save and invest more money each month by making small sacrifices.

Food and drink is a big area where many people overspend. If you forgo your daily £2.70 medium latte from Starbucks, you're looking at a saving of up to £81 a month (£2.70 x 30 days) or £972 a year.

Likewise, cutting back on a £5 lunch from Pret a Manger and bringing food from home to eat at work could save you up to £110 a month (£5 x 22 working days) or £1,320 a year.

If you invested your coffee and lunch money, then assuming a post-charges growth rate of 5% you could amass an additional £76,077 of wealth after 20 years, according to figures from AJ Bell Youinvest.

Other expenses to consider cutting back on include taxis and unused gym memberships.

A quick check of your bank statements could even reveal some direct debits you had forgotten about.

You could also save money by switching your utility provider, bank account and mobile phone tariff.

Unpicking the pensions death benefits rules

New research finds many people haven't specified who should inherit their personal pension at death

Quick pop quiz question: What will happen to your personal pension when you die?

a) **It will automatically go to the Government**
b) **It will form part of your estate and be distributed as per your will**
c) **It will go automatically to the person you have nominated as the beneficiary of your pensions.**

Your pension provider will decide who it goes to, taking your nominated beneficiaries into account.

That's the question AJ Bell asked 985 savers with personal pensions in an attempt to discover people's understanding of the UK's complex and sometimes counter intuitive rules governing pensions on death.

The majority (51%) went for option c), while 14% plumped for b). Only 7% of those surveyed – that's less than one in 10 – correctly identified that it is their pension provider who has ultimate power over where their money goes.

This is necessary because Government rules mean that if your provider doesn't exercise 'discretion' your pension could be subject to an inheritance tax charge.

This is particularly concerning when you consider how many people have actually nominated a beneficiary to receive their pension when they die. Of those surveyed, almost a third (32%) had not nominated a beneficiary, while 35% did so more than five years ago.

WHAT SHOULD I DO?

For those who haven't nominated a beneficiary yet, the message is simple – do it now! This is the best way you can be sure that, should the worst happen, your pension goes to the right person or people.

Even if you have nominated a beneficiary, it's worth reviewing who you've chosen to make sure you're still happy with the decision.

Family circumstances change regularly – there are around 2m life events that could affect these nominations such as births, deaths, marriages and divorces every year in the UK – and so nominations made a number of years ago could be out of date.

And the tax treatment of pensions after death is also poorly understood. Over half (58%) of those surveyed answered 'Don't know' when presented with four different options as to how their retirement pot will be taxed on death.

Less than one in 20 (4%) were able to correctly identify that their personal pension would be passed on tax-free if they died before age 75, and at their beneficiary's marginal rate of income tax if they died after.

It's clearly tempting to put off decisions linked to our own demise. But while thinking about pensions and death might not sound like the cheeriest of activities, it's absolutely necessary if you want to ensure your loved ones are looked after when you're gone.

Tom Selby,
Senior Analyst, AJ Bell

Investing in life sciences through funds

We explore the strategies of different funds and what they have to offer investors

Despite the UK being a world leader in the life sciences sector it can be difficult to find London-listed companies which operate in this space compared with biotech or drug development specialists.

Investing via funds is an easier way to get exposure, particularly as you can access companies in the UK and overseas. We'll talk you through some examples later in this article.

Life sciences can be applied in a number of areas, including the investigation of illnesses and their progression and the role of genetics in diseases.

Medical and scientific advances are expected to drive the life sciences industry forward, as well as a growing and ageing population and improved access to healthcare.

HOW VALUABLE IS THE SECTOR?

The life sciences sector is currently worth an estimated $1.2tn and is anticipated to hit $1.5tn by 2021.

Investment manager Downing believes the UK life sciences sector is booming with £1.13bn raised by names active in this area in 2016.

Elizabeth Klein, an investment consultant at BioScience Managers, says increasing healthcare demand and the drive to cure diseases with no diagnosis is pushing support for life sciences.

> “THERE ARE LOTS OF INCREDIBLY INNOVATIVE COMPANIES DEVELOPING NEW TECHNOLOGIES. HOWEVER, THERE IS A SIGNIFICANT FUNDING GAP WHICH PREVENTS THEM PROGRESSING FROM START-UP TO THE NEXT LEVEL”

‘There are lots of incredibly innovative companies developing new technologies. However, there is a significant funding gap which prevents them progressing from start-up to the next level,’ says Klein.

We will now explore two funds which provide exposure to the life sciences sector. They are **Syncona (SYNC)** and **Janus Global Life Sciences Fund (IE00BRJ9D748)**.

COMMERCIALISING LIFE SCIENCE TECH

FTSE 250 constituent Syncona aims to deliver returns by maximising the value from the commercialisation of life science technology and treatments for patients.

LIFE SCIENCES VS BIOTECH

Life sciences is the scientific study of living organisms to investigate the causes of illness and its progression, which can also include the investigation of genetics and reproductive science, according to the NHS.

Biotechnology is when cellular processes are used to make technology and products to detect and combat rare diseases, which can be achieved by producing antibiotics or pharmaceuticals.

The investment trust currently has seven life science companies in its portfolio and a stake in the CRT Pioneer Fund, but wants to extend this portfolio to 20 investments in the life sciences sector.

Syncona was originally set up by The Wellcome Trust which owned it until the end of 2016. It then merged with Battle Against Cancer Investment Trust (BACIT) last December.

Investors have access to a £553m investment portfolio and £292m life sciences portfolio. The fund uses money from the larger portfolio to generate returns and pour more into life sciences.

The fund is particularly focused on new areas such as cell and gene therapy as well as DNA sequencing. Growth in these areas offers the potential to address high unmet medical need and challenge traditional operating models.

According to Winterflood, the value of the life sciences portfolio increased by 12.4% to £226.6m in the quarter to 31 March 2017, driven by significant strategic and commercial progress at Blue Earth Diagnostics which is 90% owned by Syncona.

Blue Earth Diagnostics is a molecular imaging diagnostics company that has developed Axumin. This is a radioactive diagnostic agent that detects and localises prostate cancer if the blood level of prostate-specific toxins is suspected to have increased.

Axumin was launched in the US in May 2016 and Blue Earth wants to roll out sales of the product in Europe.

Syncona also has a 42.2% stake in clinical stage gene therapy firm Nightstar. The company is developing novel, one time treatments for patients with rare inherited retinal diseases.

One of the key milestones for Syncona is the start of Nightstar's Phase III trial in the first half of 2018 for the rare inherited disease choroideremia that can lead to blindness.

> THE LIFE SCIENCES SECTOR IS CURRENTLY WORTH AN ESTIMATED $1.2TN AND IS ANTICIPATED TO HIT $1.5TN BY 2021

INVESTING IN GROWTH COMPANIES

Another option for investors is to consider Janus Global Life Sciences. This fund aims to take advantage of long-term drivers of growth in the healthcare sector by investing in companies which are addressing unmet medical needs. It also looks for businesses that make the healthcare system more affordable and efficient.

Among its top holdings are established companies such as FTSE 100 pharmaceutical groups **Shire (SHP)** and **AstraZeneca (AZN)**, as well as overseas-listed giants Eli Lilly and Sanofi.

In the second quarter of 2017, the fund benefited from strong gains in global healthcare stocks thanks to an uptick in new drug approvals and fewer concerns about healthcare reform in the US.

According to asset manager Janus Henderson, potential new product launches this year should help further drive growth in this sector.

Janus Global Life Sciences Fund has achieved 21.9% annualised returns over the past five years.

HIGH RISK ROUTE

BioPharma Credit (BPCR) is another way to invest in the life sciences sector, but we are cautious on the fund as it is too complicated for the average person to understand and is high risk.

It invests in debt associated with the life sciences sector and uses royalties as collateral, mostly linked to products whose patents expire in the very near future.

BioPharma Credit plans to reward investors handsomely as it targets an annual dividend yield of 7% and a net total return on its net asset value of 8% to 9% in the medium term.

Investors should always be prepared to take a long-term approach to investing in the life sciences sector. (LMJ)

Where next for Sky shares?

The £11.7bn Fox bid remains in the balance as the group reports solid growth

DATES FOR THE DIARY

Late January 2018 – interim results

9 February 2018 – 10p special dividend to be paid

6 March 2018 – CMA's deadline to report to culture secretary on deal

At 925p pay-TV firm **Sky (SKY)** is trading at a material discount to the £10.75 per share bid on the table from Rupert Murdoch's 21st Century Fox.

This reflects uncertainty over the deal which currently sits with the UK Competition and Markets Authority (CMA).

Prospective investors in Sky have two key questions to consider:

1. **Will the deal go through?**
2. **If not, what is the future of the company as an independent entity?**

A partial answer to the second question was provided by a first quarter trading update on 12 October.

Among the reasons why shares in Sky had drifted to 750p before Fox bid for the 61% of the business it did not already own was a fear the company had hit saturation point in terms of the number of subscribers and would no longer be able to deliver growth.

SKY BREAKS THROUGH LIMITS

Analysts at Citibank note: 'The counterargument was that increased product sell-through (mobile, broadband, fibre), transactional revenues (pay as you go and entertainment sales) and segmentation (Now TV/Sky Ticket at the low end; SkyQ at the high end) would allow the group to continue to post solid revenue growth. It looks like the latter is coming through with decent momentum across the business.'

Sky's like-for-like revenue rose by 5% to £3.3bn in its first quarter despite pressure on consumer spending and lower spend in UK television advertising.

It added 160,000 new customers and more than 800,000 subscription products, while pay-as-you-go sports and entertainment proved particularly popular growing by 12%.

On this basis Citi concludes the market's perception that Sky would fall back to 750p if the Fox takeover fell apart is 'too bearish'.

The ultimate destiny of the bid may not be revealed until 6 March 2018 when the CMA has to report back to culture secretary Karen Bradley.

Like-for-like revenue rose by 5%

RISKS TO BID SEEN AS MINIMAL

Liberum analyst Ian Whittaker has upgraded his recommendation on Sky from 'hold' to 'buy' with a reiterated target price of £10.60.

He believes concerns over the bid being blocked are overdone, noting the likelihood of the Labour Party, which is particularly hostile to Fox, forming a new government before the CMA reaches its decision is slim.

Sky shareholders are also in line to receive a 10p special dividend in February 2018 as compensation for delays to the £11.7bn acquisition by Fox. (TS)

Vertu Motors has got value under the bonnet

Car dealer's asset backing, astute management and acquisitive firepower are reasons to hop behind the wheel

Patient contrarians should take a look under the hood of automotive retailer **Vertu Motors (VTU:AIM)**, unfairly overlooked at 46.5p per share. Able to withstand industry challenges given an asset rich, ungeared balance sheet, the £183.8m cap is grinding out profitable growth in relatively challenging car market conditions.

MOTORING ON

Steered by industry maestro Robert Forrester, Vertu Motors sells new and used cars from its franchised dealerships and also carries out high quality and higher margin aftersales servicing.

Half year results (11 Oct) revealed 7.2% improvement in adjusted profit before tax to a record £20.9m, delivered in difficult new car market conditions. Vertu's like-for-like new car retail volumes were down 14.7% as weak sterling reduced the supply and increased the prices of new cars. Management is sticking with its full year guidance, though analysts' earnings forecasts for 2019 and 2020 have been downgraded.

QUALITY OPERATOR

'We think the growth in first half profit is a function of management calling the market correctly at the start of the year and pulling the necessary levers early,' explains Canaccord Genuity's Sanjay Vidyarthi, maintaining his 'buy' rating but lowering his price target from 75p to 67p. 'This signals the quality of the business and how well it is positioned to consolidate the market over the next few years as weaker competition flounders.'

Rather than overpaying for deals in the half year period, Vertu bought back £1.6m of shares and plans a further £3m of repurchases. The dividend was lifted 10% to 0.55p and Forrester stresses 'we've got a brilliant balance sheet'.

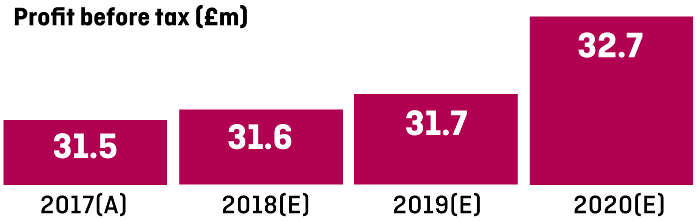
Armed with £20.8m of net cash, Vertu's net assets of £264.6m equate to 67.5p per share and include freehold property worth £175m. With low levels of used car stock financing, Vertu has a five-year acquisition facility of £40m with the potential to add a further £30m. This provides formidable firepower 'for what could be quite significant acquisitions over the next 18 months' as rivals struggle, according to Forrester.

Shares notes that US-based value investor Tweedy Browne – which buys stocks at significant discounts to intrinsic value – beefed up its holding in Vertu to 5.1% in August. For the year to February 2018, Canaccord forecasts a nudge up in adjusted pre-tax profit to £31.6m (2017: £31.5m) for earnings per share of 6.4p, leaving Vertu on a grudging PE ratio of 7.3. Pre-tax profit is forecast to rise to £31.7m in 2019 ahead of £32.7m in 2020.

VERTU MOTORS' ADMIRABLE RESILIENCE

Years to February	EPS (p)	DPS (p)
2017(A)	6.4	1.4
2018(E)	6.4	1.5
2019(E)	6.4	1.6
2020(E)	6.6	1.7

Profit before tax (£m)



SHARES SAYS: ↗
Vertu Motors is great value at 46.5p given its asset backing and acquisitive firepower. (JC)

BROKER SAYS: 2 0 0

Zinc Media looks to shine on screen

Turnaround gathers pace as the company bolsters TV production credentials

Micro cap television producer **Zinc Media (ZIN:AIM)** has renewed focus after exiting its loss-making publishing business. It is now seeking to consolidate a fragmented independent TV production sector.

Formerly called Ten Alps, and part-founded by pop star Bob Geldof, the company was renamed earlier this year as part of its shift in strategy. It now specialises in factual programming, receiving a 2017 BAFTA nomination for *Inside Obama's White House*.

In the year to 30 June 2017 the company returned to profit, albeit a modest £0.4m, at the adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) level. At the end of June, the order book for the TV division was up 76% to £6.5m and has subsequently risen further to £8m.

The development of streaming services through Amazon and Netflix has created demand for an increasing volume of quality content. To capitalise on this trend chief operating and financial officer David Galan says Zinc is shifting emphasis from one-off documentaries to longer running series which are suitable for international distribution. As part of this process the company is targeting selective acquisitions.

House broker N+1 Singer comments: 'TV production assets are well sought-after and are scarce. Zinc presents a good opportunity to gain exposure to an undervalued stock in this attractive segment.'

Based on Singer's forecasts for 2018 the shares trade on a forward price-to-earnings ratio of 11.7. (TS)

Pittards' potential currency boost

LUXURY LEATHER goods producer **Pittards (PTD:AIM)** sees the Ethiopian government's 15% currency devaluation as a positive development 'in overall terms', making its low-cost operations in the country more competitive.

Making leather at a tannery in Edjersa plus gloves, clothing and accessories at factories in Addis Ababa, Pittards concedes the sharp currency drop will require roughly £1m of balance sheet write-downs at the year end.

Half year results flagged positive trading momentum returning to the business. (JC)

Bioventix's sales smash expectations

ANTIBODIES DEVELOPER **Bioventix (BVXP:AIM)** achieved better than expected sales for its financial year to 30 June, up 31% to £7.2m. The results were particularly boosted by its Vitamin D antibody vitD3.5H10 for deficiency testing.

Full year earnings per share also beat expectations by 7%, which was driven by higher sales, gross margins and a lower tax charge.

Shareholders are being rewarded with a 40p per share special dividend, alongside a 31p normal dividend. (LMJ)

Augean issues profit warning as CEO leaves

WASTE MANAGEMENT firm **Augean (AUG:AIM)** has warned that profits will be lower than previous expectations for the year. It blames a weaker trading performance and the impact of an ongoing HMRC assessment regarding landfill tax.

Chief executive Stewart Davies has left with immediate effect and the board has further reorganised management to reduce costs. It hopes these measures will save £1.7m annually, with a one-Off cost of around £0.9m. (DS)

KEY

- Main Market
- AIM
- Fund
- Investment Trust
- Exchange-Traded Fund