STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 20 / ISSUE 02 / 18 JANUARY 2018 / £4.49

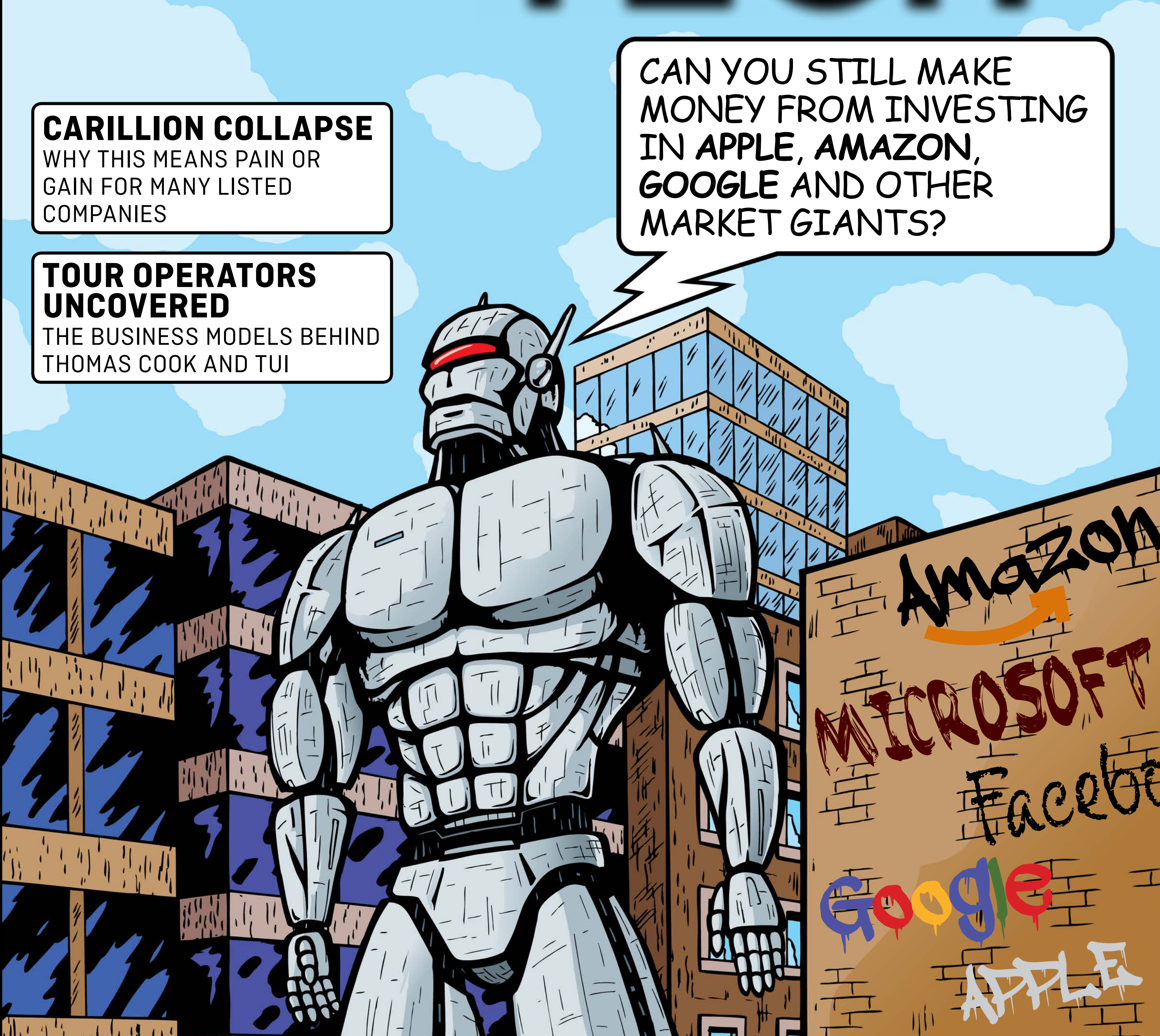
SHARES

WE MAKE INVESTING EASIER

TITANS OF TECH

CARILLION COLLAPSE
WHY THIS MEANS PAIN OR GAIN FOR MANY LISTED COMPANIES

TOUR OPERATORS UNCOVERED
THE BUSINESS MODELS BEHIND THOMAS COOK AND TUI



TOP FUNDS TO PLAY THE EMERGING MARKETS RALLY

Why an obsession with growth can be dangerous

Pursuing 'quality over quantity' is a more sustainable approach

The liquidation of construction services business **Carillion (CLLN)** is dominating the front pages and we discuss the fall-out in more depth in this week's Big News section of *Shares*.

Clearly there are lessons to be learned about having private companies whose operations are so large and entwined with public services that they become 'too big to fail', but there are also important takeaways for investors.

Among the most important is to avoid companies which are pursuing growth for its own sake, something US writer Edward Abbey described as the 'philosophy of the cancer cell'.

Carillion took on too many big jobs at the wrong price and operational issues saw costs on many of these projects over-run.

In 2016 its underlying operating margin for its UK-dominated construction services division fell from 3% to 2.7%. Put this weak profitability together with substantial liabilities in the form of mounting net debt and a big pension deficit and you had a toxic mix.

Compare the sorry mess at Carillion with the recovery story currently underway at **Bovis Homes (BVS)**. Amid a series of recent trading updates from the sector the company got the most positive response despite the volume of new builds *falling* in 2017 from 3,977 to 3,645.

Crucially, though, these homes were in its own words 'delivered in a controlled and disciplined manner' under new chief executive and industry veteran Greg Fitzgerald after the company got into difficulties over the quality of its homes in 2016.

REVENUE GROWTH NEEDS TO TRANSLATE INTO PROFIT AND CASH FLOW

This 'quality over quantity' approach is ultimately what you should be seeking from most prospective investments. After all, what is the point of delivering growth if it is not as some stage going to translate into profit and cash flow?

- **Is earnings growth matching revenue?** If not, why not? Early stage companies may fail this test as they invest for future growth and this is why investments in such companies are higher risk. However, if a more mature company is becoming less profitable over time you need to ask serious questions.

- **If there is earnings growth, is it backed by cash flow?** Earnings per share can be massaged higher through clever accounting, at least in the short-term, but cash flow typically offers greater clarity on how a business is performing.

- **How are management incentivised?** Bonus schemes predicated on increases in earnings per share can be a warning sign.

- **How strong is the balance sheet?** If a company has historically high levels of borrowings is it capable of servicing these and ultimately paying them down over time? (TS)

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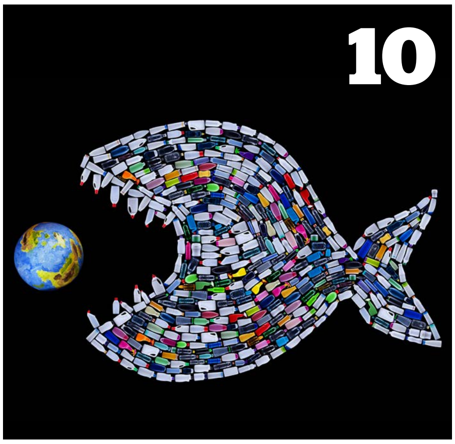

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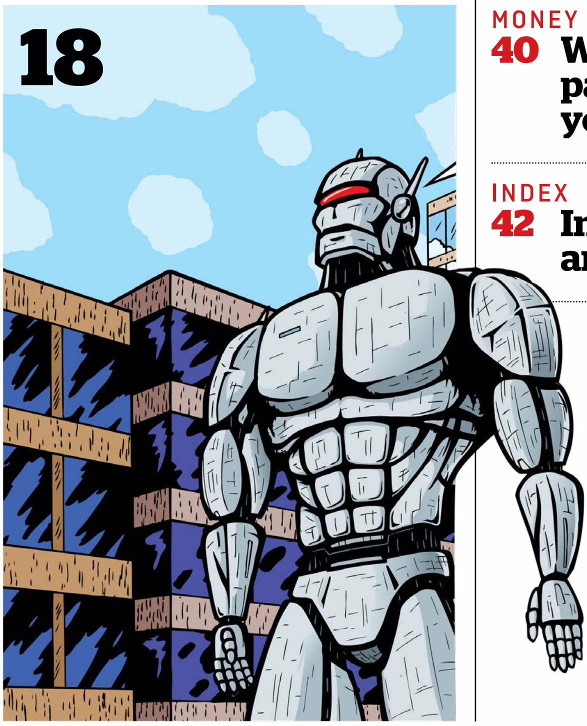

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BROKER RATINGS EXPLAINED:

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

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

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

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

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

The winners and losers from Carillion's demise

The stock market impact as support services play enters liquidation

Support services company **Carillion (CLLN)** is being put into compulsory liquidation. What does this mean for the many companies Carillion had contracts with and is there an opportunity for rivals to pick up business?

Broker Numis says that while the event is clearly bad news for the whole industry in the short term many suppliers have been able to mitigate this to some degree by adopting low exposure to Carillion.

It adds 'the scope for services partners to provide continuity of workload and employment on joint ventures contracts should also limit the impact'.

Tool hire firm **Speedy Hire (SDY)** saw its share price fall immediately on the news of Carillion's demise although this reaction may be overdone.

Liberum says that Carillion's joint venture partners are likely to take on much of the workload and Speedy Hire's financial exposure is less significant than had been thought.

WHO IS DIRECTLY IMPACTED?

Those contractors negatively impacted by the fall of Carillion include FTSE 250 companies **Balfour Beatty (BBY)** and **Galliford Try (GFRD)**. They have identified a hit from the Aberdeen Western Peripheral Route (AWPR) contract they had entered into as joint venture partners with Carillion.

Balfour Beatty expects between £35m and £45m cash outflow which is consistent with Galliford Try expecting both it and Balfour to need an extra £60m to £80m to complete the project.

But where there are losers there tend to be winners and Liberum thinks that there is an opportunity for construction company **Costain (COST)** and Balfour to win more rail work with Network Rail.

In addition, Costain and construction company **Kier (KIE)** could win additional roads work with Highways England and more work with utilities now Carillion is out of the picture.

Carillion's support services peer **Serco (SRP)** had acquired £90m of the stricken company's £150m healthcare assets, it's likely that the Serco may now be able to buy the outstanding assets.

Housing specialist **Mears (MER)** has had ambitions to win the Ministry of Defence Next Generation Estate contracts although Liberum feels that Spain's Amey is likely to take over that contract. It adds that there is also a risk that the government simply takes the work in-house.

Some listed infrastructure funds may feel some pain from Carillion's end. **HICL (HICL)** has exposure to relevant healthcare assets and has already reduced its portfolio valuation by between £5 and £10m to reflect 'recent profit warnings from certain counterparties' which Numis assumes refers to Carillion. (DS)

In the longer term the Carillion debacle may put pressure on the award of public private partnership (PPP) projects. There is also likely to be a harsher glare on companies which like Carillion have long-term, unwieldy contracts, skinny margins and lots of debt.

Support services firm **Interserve (IRV)**, for example, expects to report a 2017 year-end net debt position of £513m and it has a £44.9m pension deficit. In contrast, the market value of its shares is £174m. Analysts forecast a mere 2.1% profit margin in 2018.

Melrose launches GKN charm offensive

Engineering turnaround specialist seeks support direct from shareholders

Engineering turnaround specialist **Melrose Industries (MRO)** is expected to up its offer price as it tries to pull-off the takeover of planes and cars parts group **GKN (GKN)**.

On 12 January GKN's board rebuffed a 405p per share cash and shares offer from Melrose. That was followed by a 430.1p second offer on 17 January, also rejected by the aerospace and automotive engineer.

Melrose has launched a charm offensive in an attempt to woo GKN shareholders. This is often the first step towards the launching of a hostile takeover, where the would-be buyer bypasses the target company's board of directors and tries to win support for a buyout directly from the most influential shareholders.

On 15 January Melrose published a detailed analysis arguing the investment case for its proposed takeover of GKN. Melrose plans to have discussions with GKN's main shareholders, including Blackrock, Standard Life and Vanguard, to explain its action plan.

That move has been swiftly followed by the intervention of activist investors.

Vulcan Value, an American activist fund, has called on GKN directors to open talks with Melrose. Vulcan owns a 2.13% stake in the engineering group. Elliott Capital, another activist fund, on 15 January disclosed that it too has taken a stake in GKN, believed to be through contracts for difference.

BLACK HOLES AND REVELATIONS

GKN was seriously caught out in October last year when it over-egged demand for plane spares on several long-running programmes. Particularly galling was that it massively under-estimated the extent of the problem, the company's initial £15m predicted write-off of parts eventually emerging as a black hole worth between £80m and £130m.

That cost Kevin Cummings, the boss of GKN's aerospace arm, his job. That was a blow since

Cummings had been earmarked to succeed outgoing chief executive Nigel Stein.

GKN's share price accordingly crashed from 352p to 298p in the weeks that followed and analysts began calling in to question the company's ability to maintain its dividend.

COMPELLING MELROSE RECORD

Many observers believe that Melrose's track record at turning engineering businesses around will be hard to resist for GKN shareholders. Analysts at investment bank Berenberg estimate an improved offer of around 455p per share would very likely swing the vote Melrose's way.

Assuming a higher offer is similarly structured on an 80%/20% split between Melrose stock and cash, it would allow GKN investors to crystallise a fifth of their holding at a large premium to pre-bid share price, and still participate in any upside through a remaining stake in Melrose.

'There is an air of inevitability that GKN will end up being owned by Melrose,' says Berenberg. (SF)

Dollar hits three-year low

Decline in US currency is having major market impact

The US dollar continues to weaken towards multi-year lows and this is impacting markets across Europe including the UK.

When sterling tanked following Brexit, the FTSE 100 made gains due to a majority of its constituents earning their money in other currencies. However, a reversal in the fortunes of the dollar doesn't necessarily spell trouble for the UK's leading index.

Large mining and oil and gas companies, for example, may benefit from a weaker dollar as commodities are priced in the US currency. Effectively a weak dollar makes the products sold by resources companies cheaper for potential customers around the world.

Oil major **Royal Dutch Shell (RDSB)** is up 3.5% since the start of the year to £25.61 whereas **Anglo American (AAL)** has gained 9.7% since the start of the year. This has coincided with a 2% decline in the value of the dollar against other major currencies this year following a 10% decline in 2017.

Gold has reached a four-month high as the currency it is priced in declines.

However, commodities aside, companies with significant US exposure which report in sterling could see any benefit from US tax reforms undermined by the lower relative value of their stateside earnings. (DS)

Savills CEO steps down after nearly 40 years at firm

PROPERTY BUSINESS **Savills (SVS)** is set for new leadership after chief executive Jeremy Helsby announced plans to retire at the end of 2018 after a decade at the helm. Current UK and Europe boss Mark Ridley will take the top job.

The news was announced alongside a trading update revealing a stronger than expected finish to the year in a number of the company's global businesses. In the last 12 months the shares are up by nearly 25% at 972.5p. (TS)

Premier plays down Batchelors sale chatter

PREMIER FOODS (PFD) has poured cold water (15 Jan) on a weekend press report that it in talks to sell its *Batchelors* brand to largest shareholder Nissin Foods. Premier 'regularly reviews options to deliver value for all its stakeholders', adds such reviews 'do periodically involve discussions with third parties, including Nissin', but stresses 'there is no current situation where discussions have gone beyond an exploratory stage'. (JC)

JD says profit will be better than expected

RETAILER **JD Sports Fashion (JD.)** is in buoyant mood after it upgraded profit guidance for the second time since September 2017.

It now expects pre-tax profit for the year to 3 February 2018 to come in at £300m. That's marginally above the top end of previous market expectations which were in a range of £270m to £295m. JD's shares are up more than 10-fold in the last five years to 389.1p. (TS)

Dividend downgrades for Card Factory

Margin pressure prompts payout reappraisals for the value greetings cards-to-gifts purveyor

Greetings cards-to-gifts retailer **Card Factory's (CARD)** income credentials have weakened following a warning (11 Jan) full year earnings will disappoint due to 'continued margin pressure'. We mentioned Card Factory, which pays a big chunk of its shareholder rewards as special dividends, in an article spelling out the dangers of such an approach in last week's issue.

Given subdued footfall, earnings growth for next year 'is likely to be limited' amid foreign exchange and wage-related cost pressures.

While like-for-like sales grew 2.7% in the 11 months to 31 December, this was driven primarily by lower margin non-card categories such as gifts and dressings, with card sales being stable.

Given margin pressure, Liberum Capital has cut earnings forecasts again and dramatically reduced its dividend estimates for the historically generous dividend payer.

'Aside from what was a secure dividend we did not view Card Factory as a growth stock but an income play and until we gain more confidence that margins have troughed then the dividend outlook is less clear,' writes Liberum, trimming its year to January 2018 dividend per share (DPS) estimate by 3% to 23.9p, with its 2019 and 2020 forecasts slashed by 31% to 17.7p.

'We cut our DPS by 30% in full year 2019 and beyond as we move to a covered free cash flow (FCF) position and a declining debt profile which we feel is much more appropriate when both top-line and cost pressures persist', explains the broker, paring its price target from 260p to 240p. A 'hold' rating is retained in light of a sharp share price fall to 220p that leaves Card Factory trading on a 10.9% prospective dividend yield. (JC)

Sting in the tail for BP on Deepwater Horizon oil spill

Claims higher than expected which means big charge in upcoming results

THE FALL-OUT from the 2010 Deepwater Horizon oil spill still has the capacity to throw up the odd nasty surprise for oil major **BP (BP.)**.

While for the most part the company has been able to leave this near-existential crisis behind it, BP has now announced that higher BEL (Business Economic Loss) claims linked to the disaster would see it take a $1.7bn hit in its fourth quarter results.

$1.7bn
Gulf of Mexico hit in Q4

These quarterly numbers are already likely to be a bit messy as they are set to include a $1.5bn charge linked to US tax reform.

BMO Capital Markets analyst Brendan Warn says the higher payments are 'completely manageable', though by his reckoning the company will need to rely on disposals of $1bn to achieve 'cash flow neutrality'.

He also recognises the additional risk. 'We acknowledge the possibility that there might be further provisions in the next few quarters, as the remaining claims might prove to exceed BP's expectations,' he says.

This is something to watch closely in case it starts to impinge on BP's ability to fund sustainable dividends, a key plank of its investment case. BP reports on fourth quarter trading in full on 6 February. (TS)

December hurts for high streets and shopping centres

According to the latest BRC-Springboard monthly data, UK Total Retail Footfall fell 3.5% in December, the worst result for any month since March 2013 reflecting a Monday Christmas, poor weather and the inexorable consumer migration online. Alarmingly, all three of the BRC-Springboard's retail classifications recorded a reduction in footfall; retail parks notched up the strongest overall momentum of the three formats, down 0.6% year-on-year, with the high street 4.6% lower year-on-year and shopping centres down 3.8%.

RPC a solution for government's plastics push

Government plans to end avoidable plastic waste by 2042 may have positive implications for packaging giant **RPC (RPC)**.

The FTSE 250 company is already one of Europe's biggest plastics recyclers, processing an estimated 70,000 tonnes every year. With China having closed its doors to overseas plastic recycling from the start of 2018, RPC may be well-placed as part of sustainability drives.

While Conservative plans remain vague at this stage, RPC's deep expertise may be vital in coming to grips with many of the complexities of plastic waste, such as the one-off use case nature of medical plastic packaging, for example.

OIL BACK AT

PER BARREL

Oil prices have hit their highest levels in more than three years, hovering around the $70 per barrel mark.

Tensions in Iran, OPEC curbs on production and a surprise drawdown in US crude inventories have all contributed to the rise.

This is good news for major oil producers like **BP (BP.)** and **Royal Dutch Shell (RDSB)** and should help underpin their generous dividends. *Shares* plans to take an in-depth look at the oil sector in an upcoming issue.

Gamma is an outstanding growth story

Best in class converged communications has scope for gains

Out-competing both large and small rivals for years, **Gamma Communications (GAMA:AIM)** is a telecoms technology rarity growing at a pace that is far out-stripping its peer group.

With a growing track record for under-promising and over-delivering, we believe the company will increasingly emerge from under the investment radar. It's worth noting that two brokers have started covering the stock in the past three or four months.

That could result in 25%-plus share price upside over the coming 12 months or so to 800p or even higher.

TECHNOLOGY & TELECOMS CONVERGE

Gamma is a technology-based supplier of communications solutions exclusively to enterprise customers in the UK. The traditional telephony-based office is being transformed by new technology and mobile communications. Gamma has been taking advantage through a suite of in-house-designed VOIP-based products, or voice over internet protocol. This is the methodology behind telephone and videos calls over the internet.

Its recently launched *Connect* product is a fine example. Launched a little before Christmas 2017, it is designed to combine the functionality of fixed line communications with the flexibility and portability of mobile. Estimates imply as many as 26m existing Gamma product users could become paying customers in time.

More than three-quarters of 2017's £115m first half revenue came via its army of more than 1,000 channel partners, the rest through direct sales. With a strong track record for developing communications solutions we would expect the company to continue developing its suite, creating an increasingly compelling value and service-based proposition.

M&A COULD BE USEFUL GROWTH LEVER

But there is also scope to add extra value by making select acquisitions, then cross-selling its best in class converged communications services to the enlarged customer base. This is a road less travelled by Gamma so far, but a valuable growth lever to pull when it feels that the time is right.

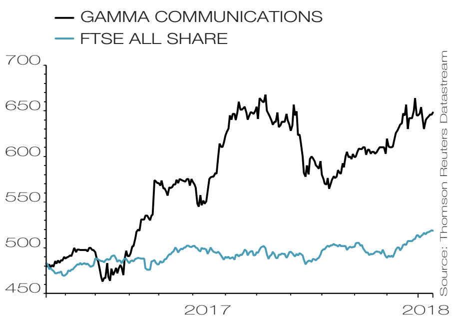
This is a business with 90%-plus recurring revenues. That means investors have a clear steer right from day one of a new financial year of what levels of growth are needed to meet forecasts. Since joining AIM in 2014 the company has put up compound annual revenue growth of 22%, according to numbers crunched by Numis analysts.

Analysts anticipate pre-tax profits of £26.6m for the 12 months to 31 December 2017, increasing to £28.4m this year. That's towards the steady rather than spectacular end of the growth spectrum, although the company have a habit of outstripping forecasts. (SF)

GAMMA COMMUNICATIONS
BUY
(GAMA:AIM) 648p
Stop loss: 518p

Market cap: £604.3m

BROKER SAYS: 3 1 0



Stay sweet on Nichols

Stick with Vimto maker for its brands, balance sheet and geographical diversity

A souring of sentiment towards soft drinks star turn **Nichols (NICL:AIM)** presents an opportunity to buy into one of the AIM market's most dependable consumer-facing companies.

Earnings estimates have come down following a December profit warning and investors are worried that delivery issues in the Middle East could continue.

In our view the sell-off is overdone given Nichols' strong brand portfolio, rock-solid balance sheet and long-term overseas growth potential.

Newton-le-willows-headquartered Nichols is the company behind the iconic *Vimto* brand, popular in the UK and around the world. The product enjoys strong demand during the Ramadan religious festival.

Nichols also owns *Feel Good*, a range of natural soft drinks with zero added sugar, *Levi Roots*, *Sunkist* and *Starslush*.

Boasting brand strength, pricing power and an asset-light outsourced global production model, Nichols is highly profitable and strongly cash generative, which supports ongoing investment in organic growth initiatives and acquisitions, as well as a progressive dividend.

DOWNGRADES DISAPPOINT

Late last year (19 Dec), Nichols warned the worsening of strife in Yemen had resulted in the supply route to its Yemeni customer being blockaded, preventing it from sending any further Vimto concentrate shipments planned for December 2017.

NICHOLS BUY
(NICL:AIM) £14.77
Stop loss: £11.82

Market value: £525m

Consequently, Nichols' management guided towards a flat adjusted pre-tax profit haul for 2017. Disappointingly, Nichols also warned 2018's percentage profit growth is likely to be constrained to the low single digits, since the Yemen conflict 'coupled with some reported slowing in the Saudi economy indicates that sales to the Middle East region in the year ahead are likely to be less than previously anticipated.'

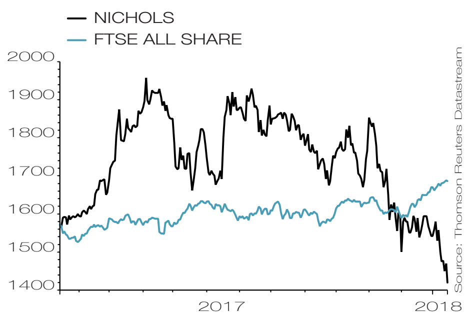
STILL FULL OF VIM

Shares believes the Yemen issue shouldn't overshadow Nichols' strong growth in Africa and Vimto's ongoing outperformance of the wider UK soft drinks market, which is helping Nichols to mitigate input cost inflation.

Nichols' diversified product portfolio means it should be able to comply with and mitigate the effect of the government's soft drinks levy, effective from April 2018. As Nichols assures: 'We are well prepared for the introduction of the Sugar Levy with 100% of the Vimto and Feel Good brands portfolio already below the levy threshold.'

For the year to December 2017, N+1 Singer forecasts flat adjusted pre-tax profit of £30.5m ahead of £31.1m in 2018 for earnings of 69.1p and a 35.5p dividend. For calendar 2019, the broker looks for pre-tax profit of £32.2m, earnings of 72.1p and further dividend growth to 39p. Significantly, Nichols' net cash is forecast to build from £36.1m to £47.6m, acquisitions notwithstanding, in 2018, ahead of £60.1m in 2019. (JC)

BROKER SAYS: 0 4 0



XP POWER
(XPP) £36.80

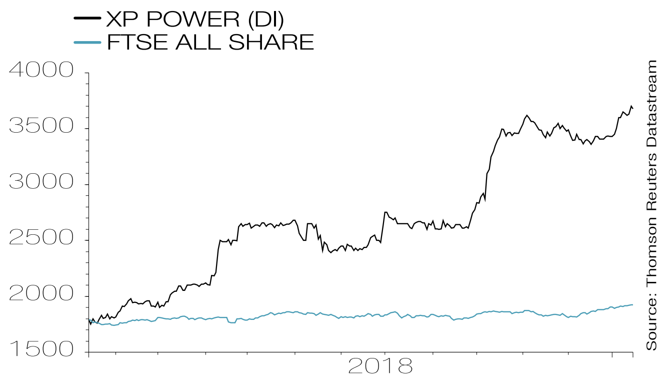
Gain to date: 52.6%
Original entry point:
Buy at £24.11, 6 July 2017

ANOTHER UPBEAT TRADING update from **XP Power (XPP)** makes it a hat-trick of positive updates since our original feature back in July 2017. Right now the stock stands at £36.80, roughly 53% up on the £24.11 level at which we flagged it.

Orders for the power switching tools that the company designs have continued to flood in for the year to 31 December 2017. That tots up to £184.3m over the 12 months, 38% more than in 2016, or 31% if accounting for currency oscillations.

XP Power's outperformance will be impressive. Forecasts in July for 2017 were pitched at £151m revenue and pre-tax profit of £31.2m respectively. What looks very likely is something closer to £35.3m pre-tax profit on £167m of sales, for double-digit outperformance.

In the meantime, the outfit has paid out handsome quarterly dividends of 16p (12 October 2017) and 18p on 11 January 2018, and will hand out another payout of at least 28p per share for the final quarter. Those three payments alone work out at a 2.6% income yield, another important part of the overall total returns story we previously outlined.



SHARES SAYS: ↗

Evidently enjoying a trading purple patch, we continue to see long-run value in this stock even on 2018 price to earnings ratio of 24.4. (SF)

BROKER SAYS: 3 0 0

MEDICA
(MGP) 166.8p

Loss to date: 20% (stopped out)
Original entry point:
Buy at 219.2p, 7 September 2017

MEDICA (MGP) HAS crashed out of our *Great Ideas portfolio* after a disappointing trading update. This triggered a 14% share price crash and sent the shares below our stop loss level of 175.4p.

Medica uses consultant radiologists to interpret computerised tomography (CT) and magnetic resonance imaging (MRI) scans to diagnose various diseases.

The share price was hit hard after Medica revealed its performance is expected be 'slightly behind' market expectations. The shares were vulnerable to bad news as they were on a premium valuation.

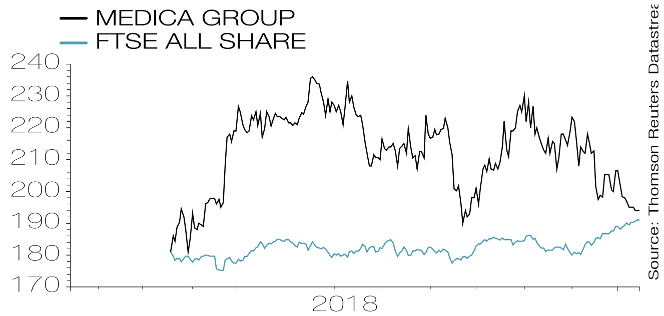
In September, Medica was trading at a forecast 29.8 times earnings per share (EPS) in the year to 31 December 2018.

Stockbroker Investec's Cora McCallum says Medica missed its sales by forecasts by 5%, but believes this can be compensated by a stronger profit margin via short-term cost savings. McCallum has cut net income forecasts by up to 7%.

Based on revised forecasts the shares trade on 21 times EPS at 166.8p (16 Jan).

In November, we were confident slower sales growth was a temporary blip and expected a recovery.

While Medica hired six more radiologists than expected, capacity constraints limited sales momentum.



SHARES SAYS: ↗

We are disappointed by the update although we are optimistic that Medica's accelerated recruitment could improve sales momentum. (LMJ)

BROKER SAYS: 1 0 0

SOMERO ENTERPRISES
(SOM:AIM) 370p

Gain to date: 29.5%
Original entry point:
Buy at 285.62p, 23 March 2017

SHARES IN CONCRETE levelling specialist **Somero Enterprises (SOM:AIM)** have hit an all-time high after saying that 2017 revenue would beat market expectations and that it would benefit from a lower corporate tax rate in the US.

Also driving up the share price was a very positive outlook statement from the company which says it continues to see 'significant growth opportunities'.

The new US corporate tax law should, in theory, leave businesses in that country with more money in their pocket after paying their taxes. That in turn could result in greater corporate spending and stimulate economic activity in the US, which is Somero's largest market.

Stockbroker FinnCap has increased its earnings per share forecasts by 7.7% for both Somero's 2017 and 2018 financial years, now standing at 29.5c and 36.8c respectively. Its share price target has been lifted from 420p to 450p, implying at least 20% upside over the next 12 months.

We're encouraged to see an acceleration of growth in Europe during the second half of 2017 and that China is also seeing growth. The latter territory was disappointing in the first half of the year, prompting Somero to undertake a review to revive its fortunes in this part of Asia.

SHARES SAYS: ↗
We're pleased to see the business doing so well. Keep buying the shares. (DC)

BROKER SAYS: 1 0 0

WEEK AHEAD

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TRADING STATEMENTS	
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INTERIMS	
IG	IGG
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Cairn Energy	CNE
Dixons Carphone	DC.
EasyJet	EZJ
Marston's	MARS
Pets at Home	PETS

SHARES IN PRECISION engineer **Renishaw (RSW)** have rattled along right through 2017, roughly doubling to the current £53.80.

They surely won't repeat the trick in 2018 but we do expect half year results to 31 December 2017 (25 Jan) to remain upbeat.

The near-£4bn company continues to enjoy improving demand in investment hotspots, such as auto production and consumer electronics, as well as wider industrial growth.

A PROFIT WARNING from the professional information outfit, publisher of the *Daily Mail* publisher and events company **Daily Mail & General Trust (DMGT)** in November 2017 wiped off nearly a quarter of its market value.

Investors will be hoping for no further deterioration in the outlook when it updates on trading on 25 January. And with his strategic review now complete, chief executive Paul Zwillenberg will look to kick 2018 off by highlighting the potential of a streamlined portfolio.

AGMS	
Advanced Oncotherapy	AVO
Connect	CNCT
Mitchells & Butlers	MAB
Marston's	MARS

WEDNESDAY 24 JANUARY

FINALS	
Crest Nicholson	CRST
TRADING STATEMENTS	
Antofagasta	ANTO
Empresaria	EMR
JD Wetherspoon	JDW
Polymetal	POLY
Sage	SGE
WH Smith	SMWH
AGMS	
Troy Income & Growth	TIGT
ECONOMICS	
UK	
Unemployment Rate	

THURSDAY 25 JANUARY

FINALS	
Blue Prism	PRSM
INTERIMS	
CPL Resources	CPS
Diageo	DGE
Renishaw	RSW
Sky	SKY
TRADING STATEMENTS	
Anglo American	AAL
ASOS	ASC
Brewin Dolphin	BRW

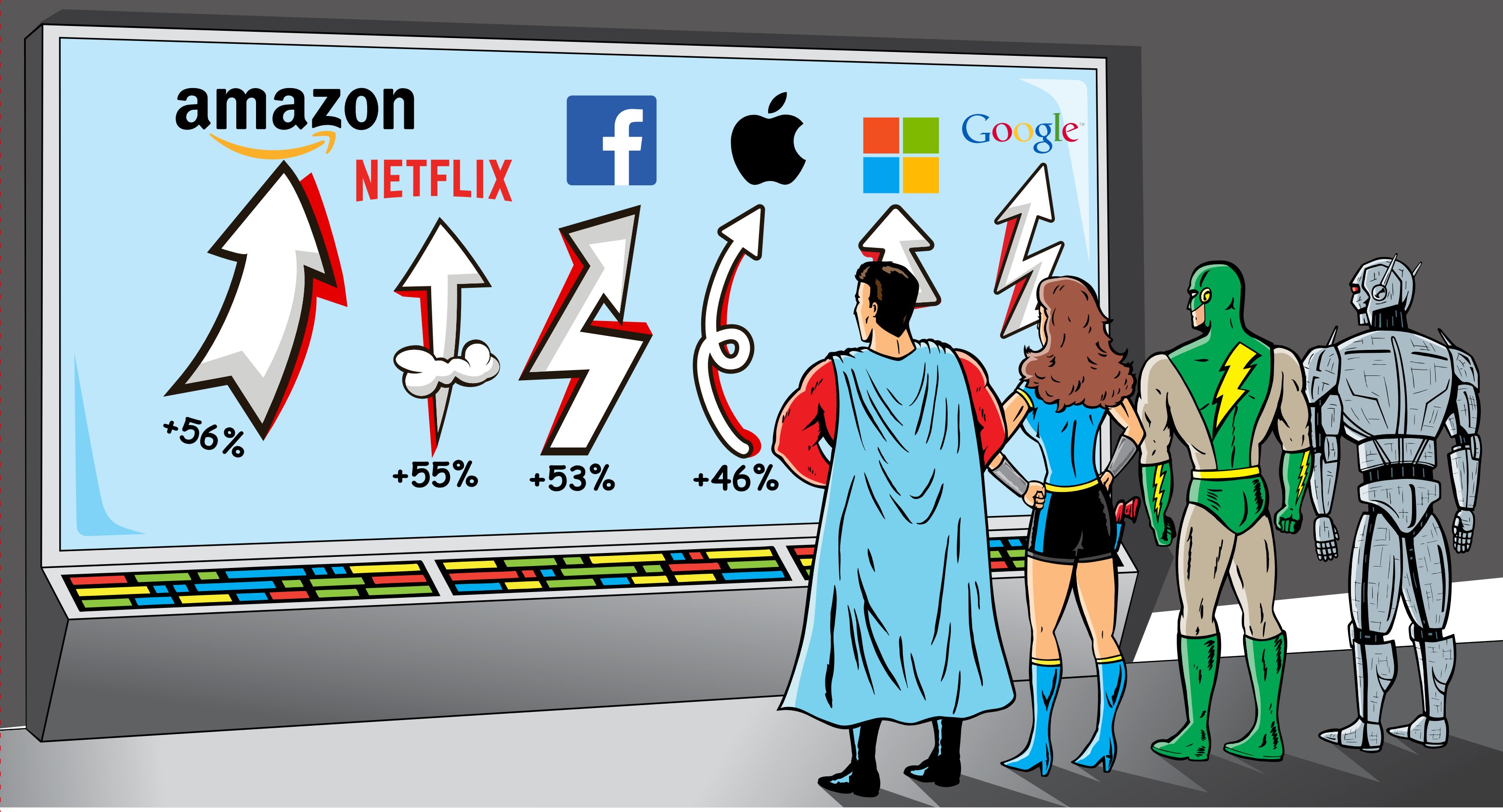
When low-cost airline **EasyJet (EZJ)** reports first quarter results on 23 January, the biggest question on investors' lips will be whether it is continuing to win business from struggling or defunct rivals.

Last year, EasyJet said revenue per seat growth was expected to be positive by 'low to mid-single digits' in the half year to 31 March 2018 after Monarch descended into administration and Air Berlin declared insolvency.

CMC Markets	CMCX	
Diageo	DGE	
Daily Mail and General Trust	DMGT	
Euromoney Institutional Investor	ERM	
Fuller Smith & Turner	FSTA	
Genel Energy	GENL	
Greene King	GNK	
Kaz Minerals	KAZ	
Kier	KIE	
The Restaurant group	RTN	
St James's Place	STJ	
AGMS		
Conygar Investment Company	CIC	
Countryside Properties	CSP	
Game Digital	GMD	
Henderson European Focus Trust	HEFT	
McCarthy & Stone	MCS	
Standard Life Private Equity Trust	SLPE	
EX-DIVIDEND		
Cardiff Property	CDFF	11.5p
The City of London Investment Trust	CTY	4.3p
Fenner	FENR	2.8p
Gooch & Housego	GHH	6.5p
Pennon	PNN	11.97p
RWS	RWS	5.2p
Stagecoach	SGC	3.8p
Solid State	SOLI	4p
ECONOMICS		
UK		
CBI Realised Sales		

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

THE WORLD'S BIGGEST COMPANIES: ARE THEY STILL A BUY?



The world's biggest companies enjoyed a rip-roaring 2017 as investors went mad for internet and technology stocks. The $64,000 question now is whether they can continue to make big gains in the market during 2018, and beyond.

The oft dubbed FANG stocks tend to nab the headlines. These are Facebook, Amazon, Netflix and Google parent Alphabet.

Each is a dominant force in their respective fields. Facebook, in social networking and online advertising; Amazon, in online shopping and cloud computing, while Netflix is number one when it comes to subscription-based streaming video on demand. Google is the world's undisputed king of online search and advertising.

Throw in Apple – the world's largest company by virtue of its $895bn market value – and Microsoft, also strong in cloud computing, gaming and enterprise software, (let's call them FANG+AM) and these half dozen companies demand the attention of investors, even those that typically shun the technology space.

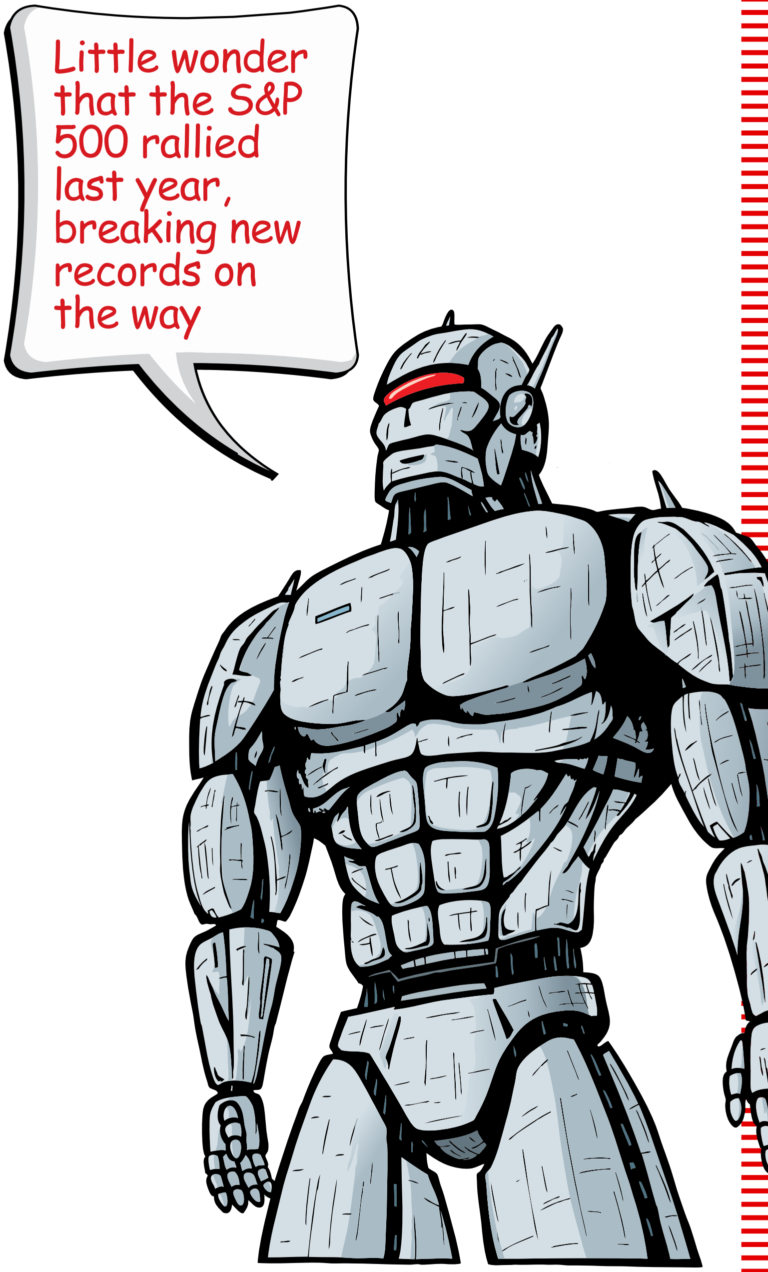
MASSIVE MARKET LEVERAGE

This is because of the huge influence they exert over wider stock markets. If we strip out the much smaller Netflix (worth a comparatively piddling $92bn) we are left with the world's five biggest companies by market cap, worth a combined $3.58trn, or $3,583bn if that's easier to digest.

Put another way, FANG+AM represent 14% of the entire value of the S&P 500, the index that best benchmarks the US stock market. Considering the S&P 500 makes up something like 70% to 80% of the value of all US stocks, it means these five companies alone are worth something in the region of 10% or more of the entire US stock market.

Through 2017, Amazon's 56% share price gain lead the pack. It was followed closely by Netflix (55%), Facebook (53%), Apple (46%) and Microsoft (38%). Alphabet/Google brought up the rear, and even it chalked-up an impressive 33% jump last year.

Little wonder that the S&P 500 rallied last year, breaking new records on the way. Last year the index soared 19.4%, ending the year just a fraction off its all-time high at 2,673.61.



WILL THE BEARS SHOW THEIR BITE?

This had led to inevitable talk of a technology bubble and a steep market correction to come. Investor concerns are wide-ranging. What happens, for example, if the US plunges into recession? Is government intervention likely as these names become increasingly dominant online? There are tax complaints and antitrust threats.

For example, in June 2017, the European Union (EU) slapped Google with a record $2.7bn antitrust fine for giving preference to its online shopping platform over competitors.

Then there are deeper issues to sort out. Who, for example, should take responsibility for things like fake news and internet obscenity? Phone networks don't carry the can for obscene calls but regulators are taking increasingly tough stands against online content, even user generated stuff.

This is something that Facebook founder Mark Zuckerberg is now grappling with, after his site was accused last year of spreading fake news during the 2016 US presidential election race. It has also faced criticism for changes made to its newsfeed algorithms. Last week Zuckerberg announced newsfeed changes clearly aimed at placating lawmakers, although the impact to ad revenues remains to be seen.

There's also the US repeal of net neutrality. This will effectively allow broadband suppliers to slow networks speeds of heavy data users, or charge extra not to do so. How this may impact costs for Netflix' streaming services only time will tell. Amazon, Microsoft and Google, among the world's biggest public cloud providers, may also be impacted if business users wind up being charged more by their communications networks providers.

BEST TECH SHARE TO OWN FOR THE NEXT DECADE

A recent CB Insights survey named Chinese internet and digital commerce firm Alibaba as the best tech share to own for the next 10 years.

Interestingly, Amazon, Apple and Alphabet/Google came in next, while both Facebook and Netflix featured among the top eight.

Microsoft was placed among the top 16, alongside the likes of Salesforce, Tencent, Tesla and Baidu.

ARE VALUATIONS REALLY STRETCHED?

But the biggest concern for investors is, arguably, one of valuation. After such strong share price runs in 2017, how much upside is left on the table for the coming years? What's the downside in a market correction? What if past growth rates simply cannot be match in the future?

These are all very fair questions for investors to ponder.

Investors typically look back to the dotcom crash in the early 2000s, yet fund managers in the main have consistently called into question such comparisons. The major difference between current ambitious investment multiples versus those of the late 1990s is real earnings.

'This time round technology share prices are rising with earnings upgrades that are outstripping an otherwise low growth environment,' is the view of Walter Price, the highly experienced manager of the **Allianz Technology Trust (ATT)**.

Between them FANG+AM stand on an average price to earnings (PE) multiple of 60.7 for the next 12 months, according to Reuters data. Yet this is hugely influenced by the relatively poor profits performance of Amazon and Netflix, both of which have clearly communicated plans to sacrifice near-term profits as they chase land grabs in existing and new markets.

Amazon stands on a next 12 months PE of 159, Netflix 92.6.

It's worth mentioning that shareholders have often been willing to overlook this kind of valuation for big technology with potentially enormous future cash flows.

PEs among the rest of the FANG+AM group look anything but stretched when you consider the respective growth, both real and potential, averaging out at 23.

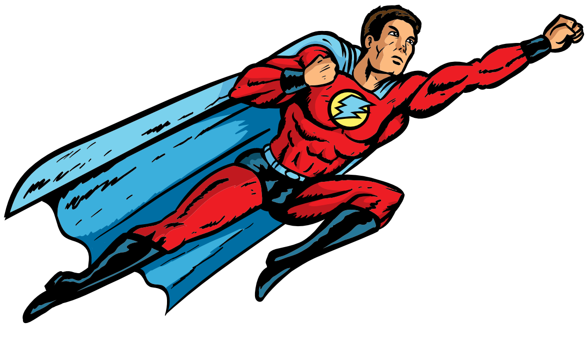
MOST RECENT TRADING

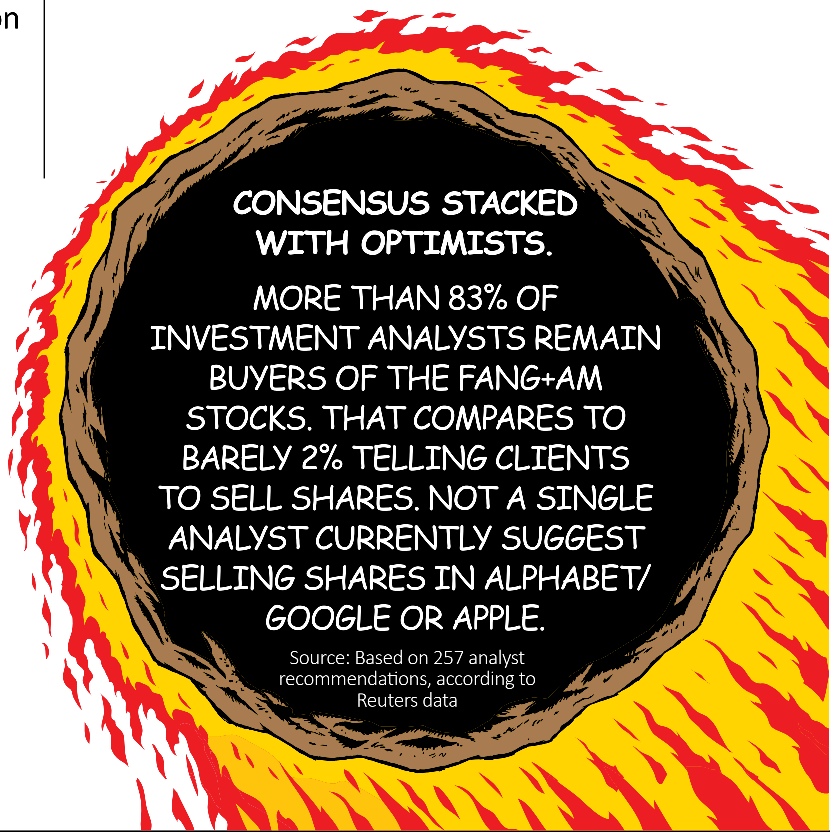
Against such PE multiples investors must compare trading. Most of the FANG+AM's financial years tally with the calendar year, which means 2017 results are still to come (probably towards late February/early March).

Apple stands apart in that regard, but its recent trading has been similarly impressive. Full year figures to 30 September 2017 showed a return to growth after declining for the first time in years during 2016. It also seems to be seeing strong demand for its latest iPhone X, arguably the first new iPhone makeover to make a big difference since iPhone 6 back in 2014.

Elsewhere, in November Facebook reported third quarter earnings that beat earnings and revenue estimates by a wide margin. Late last year Amazon scored two price target hikes on expectations of a strong holiday sales season. Increasing optimism over its online retail leadership also helped. The consensus target price is currently pitched at $1,330.

Alphabet/Google has also impressed. In late October its third quarter results smashed estimates, sending shares in the internet giant to a new high.





MARKET EXPERTS REMAIN UPBEAT

Many analysts do expect FANG+AM stocks to continue to rally in 2018, driven by what have been called 'network effects,' or in other words, using their powerful business platforms to win new business at increasingly lower cost. This also creates deeper and wider moats, or barriers to entry.

It implies that revenue and earnings growth, not to mention potential windfall from repatriated cash thanks to US tax reforms, will continue through 2018. Ongoing fans include billionaire entrepreneur Mark Cuban and Ken Fisher, the founder of Fisher Investments, plus scores of fund managers and investment analysts.

Of course, we cannot predict the future with accuracy but we do believe that the real value of these businesses is most likely to come over several years rather than on a time-frame limited to the coming 12 months.

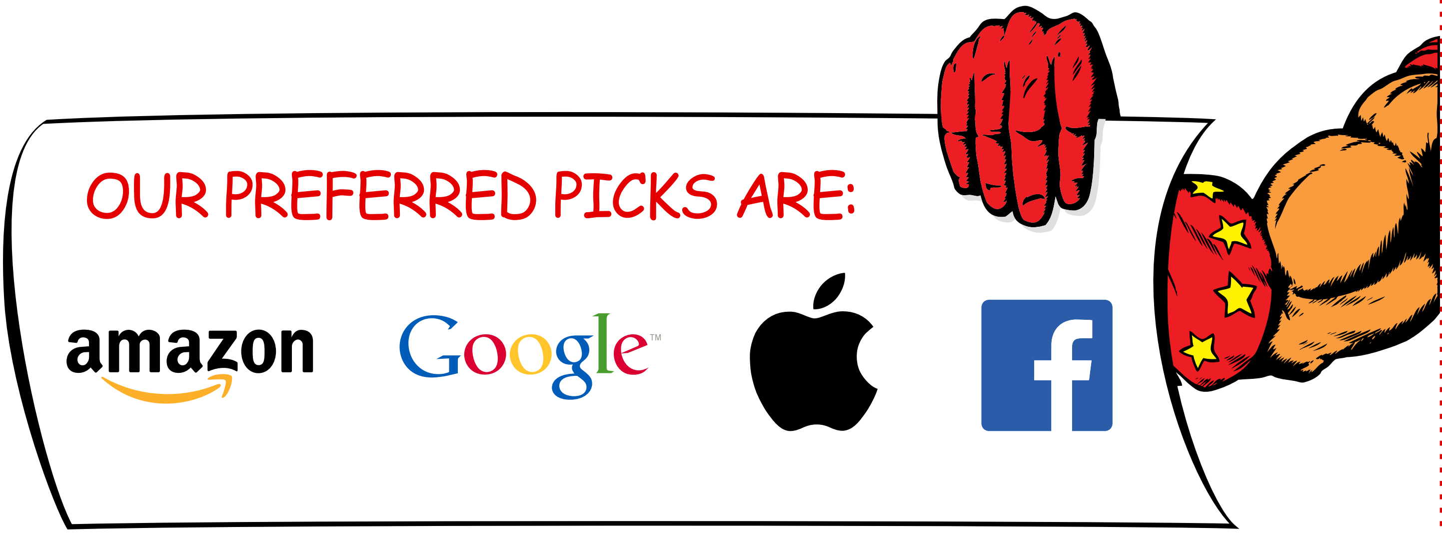
Part of the reason is new developments and emerging technologies. Themes like automotive technology (among the major markets next up for significant disruption, say experts), artificial intelligence, machine learning, robotics and others are gathering pace. Importantly, it is the FANG+AM companies that are leading the way in terms of investment dollars.

Excluding Netflix, Facebook, Amazon, Alphabet/Google, Apple and Microsoft have applied for more than 52,000 patent applications and grants since 2009, according to venture capital researcher CB Insights.

THE US TECHNOLOGY SECTOR IS STILL THE EASIEST PLACE FOR UK INVESTORS TO GET ACCESS TO MAJOR INVESTMENT THEMES AND MEGA-TRENDS

How any of these companies might look years down the line is beyond any of us to predict, but investment in today's and tomorrow's technologies perhaps gives a hint to the direction of travel.

As one analyst has said, the US technology sector is still the easiest place for UK investors to get access to major investment themes and mega-trends. Don't write it off just yet, there are still plenty of investors eager to own Apple, Amazon and Netflix et al, and sell-offs are regularly treated as a buying opportunity. Our preferred picks are Amazon, Alphabet/Google, Apple and Facebook. (SF)



THE FINE PRINT

If you want to buy any of the FANG+AM shares, or any US stock for that matter, it could barely be easier. Whether it's direct through a share dealing account, via a Stocks and shares ISA, Lifetime ISA, Junior ISA, most decent broking platforms will be able to help.

Avoiding a potentially complex web of tax rules, double taxation treaties and special exemptions for investors operating across international markets is also straight-forward. You will need to complete a W-8BEN form. This allows you to benefit from a UK/US treaty rate that currently allows all qualifying US dividends and interest to be paid net of 15% US withholding tax instead of the full withholding tax rate of 30%.

This won't help you avoid possible foreign exchange charges. Some platforms may make a small charge to convert any dividends paid in foreign currency back into sterling, so check with your broker for specific details.

Another option that may be available to through CDIs, or Crest Depository Interests. These are UK securities representing an underlying interest in an overseas security. They are issued on a one-for-one basis. Because CDIs are UK securities, you can receive dividends in sterling and can buy or sell CDIs easily in the UK.

USING COLLECTIVES

Buying individual shares may suit some investors, others may prefer to access FANG+AM stocks through a collective investment vehicle; a fund, investment trust or ETF.

FIVE FUND OPTIONS

Neptune Global Technology Fund (GB00BYXZ5N79)
Currently top 10 stakes include Alphabet, Microsoft, Apple, Facebook and Amazon

Polar Global Technology Fund (IE0030772275)
Currently top 10 stakes include Microsoft, Apple, Facebook, Alphabet and Amazon

Baillie Gifford American Fund (GB0006061963)
Currently top 10 stakes include Netflix, Facebook, Alphabet and Amazon

Standard Life Investments American Equity (GB00B7JCD629)
Currently top 10 stakes include Alphabet

Threadneedle American Select Fund (GB00B7HJLD86)
Currently top 10 stakes include Microsoft, Apple, Alphabet and Amazon

THREE INVESTMENT TRUSTS

Scottish Mortgage (SMT)
Currently top 10 stakes include Facebook, Amazon plus Tencent, Alibaba, Baidu and Tesla

Polar Technology Trust (PCT)
Currently top 10 stakes include Microsoft, Apple, Alphabet, Facebook and Amazon, plus Alibaba and Tencent

Allianz Technology Trust (ATT)
Currently top 10 stakes include Microsoft, Apple, Alphabet and Amazon

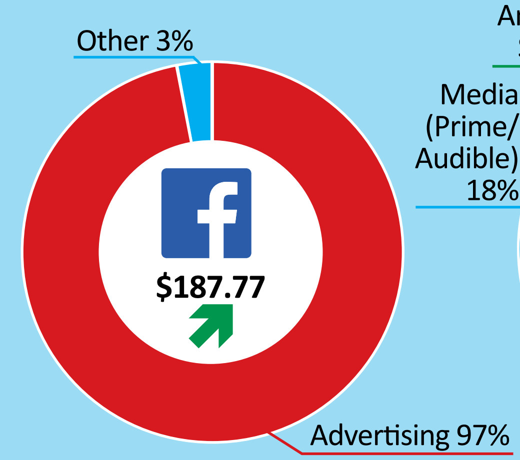
POPULAR ETFS

PowerShares EQQQ Nasdaq-100 UCITS (EQQQ)

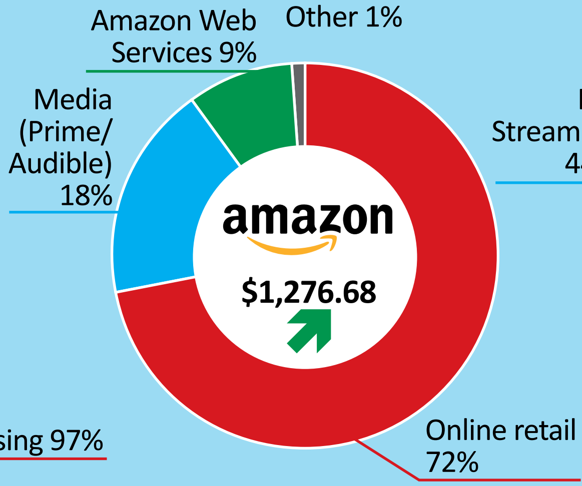
Lyxor Russell 1000 Growth UCITS (RSGL)

iShares NASDAQ 100 (CNDX)

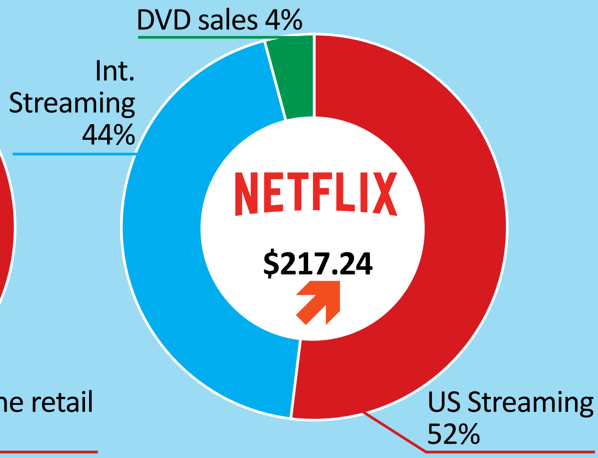
FANG AND AM AT A GLANCE



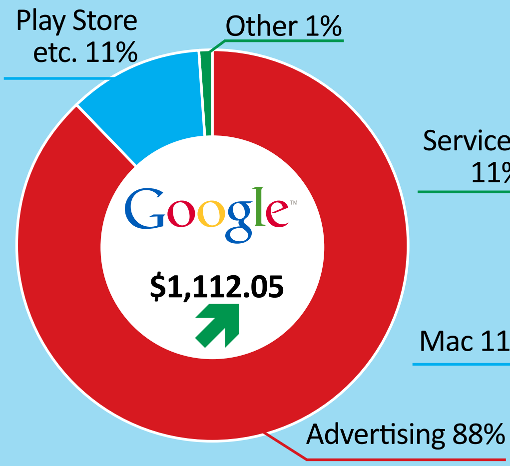
Market cap $545.6bn
Revenue $27.6bn
Net income $12.5bn
PE*** 26.9



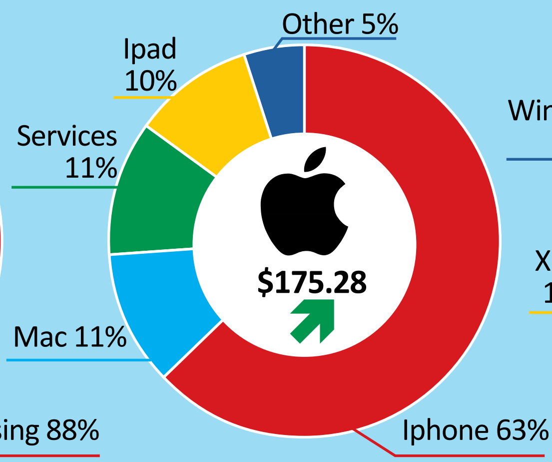
Market cap $615.2bn
Revenue $136bn
Net income $3.82bn
PE*** 158.8



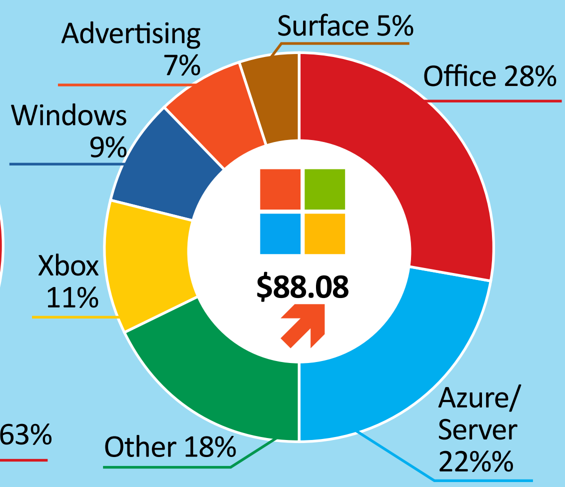
Market cap $94.0bn
Revenue $8.83bn
Net income $261m
PE*** 92.6



Market cap $770bn
Revenue $90.3bn
Net income $24.2bn
PE*** 26.4



Market cap $900bn
Revenue $229bn
Net income $64.1bn
PE*** 15.1



Market cap $680bn
Revenue $90.0bn
Net income $23.1bn
PE*** 24.1

*Based on full year 2016 **Based on Q3 2017 ***Next 12 months
Source: Company accounts, Reuters

Go under the radar with investment trusts

The hidden gems which could help boost your returns

Investors tend to flock to the most popular options when it comes to choosing investment funds and trusts. This herd mentality means many people are missing out on some first-class investments simply because they are under the radar.

But seeking out these lesser-known names could provide a serious boost to your returns; several investment trusts which would have tripled your money over the past five years are still trading on hefty discounts, managing relatively tiny amounts of investors' cash compared to the behemoths of the sector.

The **Rights & Issues (RII)** investment trust, for example, has delivered an impressive 228.4% over five years – it would have turned £10,000 into £32,840 in that time – yet trades on a discount of more than 13%.

NARROWING DISCOUNTS CAN BOOST RETURNS

Backing an investment while it's still under the radar can enhance your return if the discount to net asset value narrows. If you buy at a discount of 10%, for example, and it moves to trade at par, even if the trust delivers no capital growth, you have still made a 10% profit as other investors are willing to pay more for the shares than you did.

> BUYING A LESSER-KNOWN TRUST CAN BE RISKY, TOO

But buying a lesser-known trust can be risky, too. Investments with fewer assets can be more difficult to buy and sell, and you could find yourself stuck in a trust you want to get out of, or suffering if the discount falls even further. Yet with the right research, experts say there are gems to be found.

Investors in the **India Capital Growth (ICG)** trust would have seen a 174% return on their money over the past five years. Yet, despite such stellar performance, the trust still trades at a discount of 11.9% and has assets of little more than £100m.

India has become an

UNDER THE RADAR RETURNS PT1

TRUST NAME	FIVE-YEAR RETURN (%)	PREMIUM (DISCOUNT) (%)
Acorn Income	142.1	-4.5
Blue Planet Investment Trust	117	-8.1
Highbridge Multi-Strategy	29.3	-1.3
Independent Investment Trust	249.1	10

Source: FE Trustnet, 11 January 2018

increasingly popular emerging market investment choice in recent years as structural reforms and a growing middle class in the country have driven its economy forward. David Cornell, chief investment officer at Ocean Dial, says: 'Everything in India is growing but it's about finding well-managed companies which are run by honest people and not just growth for growth's sake.'

He backs businesses which protect their balance sheet and look after their shareholders' interests. The trust's largest holding is in mortgage finance company Dewan Housing.

Mortgage lending in India is currently only around 10% of its gross domestic product – in the UK it's closer to 100% – but it has been growing steadily and default rates are low. 'The cost of borrowing is coming down and that is stimulating demand. Dewan is not targeting the affluent but the emerging middle class,' says Cornell.

INCREASING APPEAL OF INDIA

Innes Urquhart, research analyst at Winterflood Securities, says the trust's focus on small and mid-cap companies differentiates it from its rivals. But while the trust's total return has outperformed its peers he points out that subscription share issues have had a dilutive effect on its net asset value, which has grown just 148.1% over five years. Urquhart adds: 'The trust is now of a size where it may appeal to a broader range of potential investors and this could lead to a further narrowing of the discount.' It has already narrowed from 20% in August 2017.

> **A CONCENTRATED PORTFOLIO WITH SIGNIFICANT EXPOSURE TO TECHNOLOGY AND SMALLER COMPANIES COULD BRING VOLATILITY**

Managing director of the **Independent Investment Trust (IIT)** Max Ward says last year was 'a wonderful year for stock pickers'. The 'global' trust has some 88% of its assets in the UK where Ward says the best opportunities are to be found in the small and mid-cap space. Standout holdings in the portfolio include **Blue Prism (PRSM:AIM)**, which designs and rents software robots.

The firm has seen its share price grow from just 78p when it floated in 2016 to an incredible £12.60 today. 'We think this market is absolutely in its infancy; it is one of the best companies in its industry and could grow at a rapid rate for some time to come,' says Ward.

The trust has returned an impressive 249.1% over the past five years but Ward says he never feels confident. After such a strong year with so few companies producing disappointing results he is concerned that 2018 could bring a reversal in fortunes.

Certainly, a concentrated portfolio with significant exposure to technology and smaller companies could bring volatility, points out Urquhart. But he likes that board of the trust has significant 'skin in the

UNDER THE RADAR RETURNS PT2

TRUST NAME	FIVE-YEAR RETURN (%)	PREMIUM (DISCOUNT) (%)
India Capital Growth	174	-11.9
LMS Capital	-26.7	-35.4
Manchester & London	68.7	-2.9

Source: FE Trustnet, 11 January 2018

game' and that it is one of the lowest cost investment trusts available with an ongoing charge of just 0.34%.

FROM LITTLE ACORNS

Investors who put £1,000 into **Acorn Income (AIF)** when it launched in February 1999 would have more than £14,000 today if they had reinvested their income. The trust has delivered a return of 142.1% over the past five years – that's despite its focus on UK smaller companies being a drag in the aftermath of the Brexit vote.

Currently some 83% of the portfolio is held in smaller businesses; Nigel Sidebottom, head of closed-end funds at Premier Asset Management says that despite Brexit uncertainties there are still a wealth of opportunities in this part of the market; just 11% of its assets are currently in fixed income investments.

Acorn has no more than 50 holdings at a time and Sidebottom says these are chosen based on in-depth knowledge of each company. Top holdings include cosmetics company **Warpaint London (W7L:AIM)**, tech firm **Discoverie (DSCV)**, and packaging business **Macfarlane (MACF)**. Such is Sidebottom's conviction that there are several investment opportunities that in December the trust received shareholder approval to issue new shares up to 20% of its existing capital.

Charles Cade, research analyst at Numis Securities, says: 'Acorn Income has an impressive, long-term track record. Manager Paul Smith has an opportunistic approach that seeks to exploit short-term trading opportunities and invest in specialist, less widely followed securities that can be mispriced.'

Gearing of 40% means the trust is likely to perform well in rising markets, but could suffer if there is a stock market set back this year. Although Cade points out that a focus on high quality companies and an allocation to fixed interest helps mitigate this.

BEST THINGS DO NOT ALWAYS COME IN SMALL PACKAGES

But small is not always beautiful. **LMS Capital (LMS)** invests in small, private UK companies such as software business Entuity and marketing firm Elateral. Yet, while the average investment trust in the private equity sector has delivered a return of 75.9% over the past five years, LMS Capital is down 26.7% over that period.

Such underperformance saw a new external manager – Gresham House – appointed in August 2016, which has implemented a restructuring plan including a review of the trust's assets, cost savings and appointing a new investment committee. The trust trades at a discount of 35%.

Cade says the trust has had a 'difficult history'. He explains: 'It had adopted a wind-up strategy, but in July 2016 put forward reconstruction proposals.' While the new investment team and strategy have delivered capital back to investors, Cade still has some concerns: 'There are still some legacy investments and 43.1% of the fund is held by the family of the previous manager.'

Gresham House chief executive Tony Dalwood says: 'The new investment committee has initiated a process to revitalise the business and have delivered a return of capital ahead of our original plans.' (HB)

UNDER THE RADAR RETURNS PT3

TRUST NAME	FIVE-YEAR RETURN (%)	PREMIUM (DISCOUNT) (%)
Mithras	105.1	-4.8
Rights & Issues	228.4	-13.4
Value & Income	72.2	-15.7

Source: FE Trustnet, 11 January 2018

It's not too late to join the emerging markets party

JP Morgan's Omar Negyal sees particularly exciting opportunities in the China A-Shares market

According to the experts it's not too late to invest in the emerging markets rally despite a buoyant 2017.

One of their number is Carlos Hardenberg, manager of **Templeton Emerging Markets Investment Trust (TEM)**, who believes the emerging markets recovery underway since 2016 shows little sign of abating and that there's more room for corporate earnings to recover.

ROOM TO REBOUND?

As Hardenberg commented in a recent 2018 outlook for the asset class, earnings are improving after being under pressure, visibility is better and there is still scope for further recovery which means valuations are still 'very attractive'.

He also notes that there is likely to be volatility but institutional investors are still underweight emerging markets based on their contribution to global GDP.

Investors can access this compelling emerging markets story through a variety of professionally-managed funds. Among open-ended funds, they include strong five-year performers such as **Hermes Global Emerging Markets (IE00B3DJ5K90)**, guided by Gary Greenberg and with money to work in Samsung and Sberbank, and the Nick Price-managed **Fidelity Emerging Markets (GB00B9SMK778)**, whose positions include Taiwan Semiconductor and AIA Group.

Other options include **UBS Global Emerging Markets Equity (GB00B7L34154)** and **Neptune Emerging Markets (GB00B8J6SV12)**, both portfolios invested in Tencent, Alibaba and Naspers.

WHY JEMI'S A GEM

As at 12 Jan '18, and despite the emerging markets rebound, the average discount in the Association of Investment Companies' (AIC) Global Emerging Markets sector is 8.9%, with only four of the sector's eleven companies trading at a premium. They include the **Jupiter Emerging & Frontier Income Trust (JEFI)**, **BlackRock Frontiers (BRFI)** and also Terry Smith's **Fundsmith Emerging Equities Trust (FEET)**. The latter is geared into the rise of the consumer classes in developing economies and has seen its shares appreciate strongly since the back-end of last year.

The other is **JP Morgan Global Emerging Markets Income Trust (JEMI)**, trading at 0.8% premium in part explained by its focus on quality businesses that generate cash and pay sustainable dividends. Speaking to *Shares* recently, co-manager Omar Negyal said he is 'quite comfortable with emerging markets valuations'.

Negyal continues: 'Valuations are not quite as cheap as they were a year ago, but these were off extremely depressed levels so we've rallied off the bottom. We have mid-cycle valuations now. There is still further to go in terms of re-ratings. Income stocks are still cheaper relative to the asset class as they tend to be a value play.'

Omar Negyal, co-manager JP Morgan Global Emerging Markets Income Trust (JEMI)

JP MORGAN GLOBAL EMERGING MARKETS INCOME TRUST

- **Ticker:** JEMI
- **Latest share price:** 141p (AIC)
- **NAV:** 139.84p (AIC)
- **Premium:** 0.8% (AIC)
- **Dividend yield:** 3.5% (AIC)
- **Co-managers:** Omar Negyal, Jeffrey Roskell, Amit Mehta

'I only invest in dividend paying stocks,' he adds.

A-SHARES EXCITE

One area Negyal has been harvesting dividends from is the newly available domestic China A-Shares universe, 'a really exciting opportunity for income investors in emerging markets' where he has been building up JEMI's exposure.

He credits the increased availability of China A-Shares through the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programmes as a factor in his decision making. Compared to H-Shares, which tend to be dominated by state owned industrial enterprises, Negyal says A-shares offer a much broader investable universe of private companies with attractive dividend payouts and strong free cash flow.

'We began participating in 2015,' says Negyal, who says the A-Shares market 'widens the number of income opportunities in China and means we can find companies that are a little bit different from the ones that have been listed in Hong Kong.' He also explains this has been an area where it has been more possible to find quality names in China which provides more reassurance in terms of overall dividend sustainability.

Portfolio positions include home appliances-to-commercial air conditioners producer Midea, whose wares are sold into the domestic and export markets. 'This is an industry where there are only a few dominant players and Chinese buyers buy local brands,' says Negyal, explaining

TOP TEN HOLDINGS (AS AT 31 DEC 2017)

Taiwan Semiconductor Manufacturing ADR	4.2%
Sberbank ADR	3%
Fuyao Glass	2.7%
Vanguard International Semiconductor	2.4%
FirstRand	2.3%
Banco Santander-Chile ADR	2.2%
AVI	2.1%
OTP Bank	2.1%
China Resources Power	2%
Infosys Technologies ADR	2%

Source: J.P. Morgan Asset Management

Midea generates high levels of profits and cash and pays high levels of dividends to shareholders.

Another preferred pick is Fuyao Glass, an auto glass manufacturer and a 'private company with a strong foothold in its own particular sub-sector. It makes window screens for cars in China and for international car manufacturers,' says Negyal, also highlighting Fuyao's 'very, very healthy profit structure and an ROE (return on equity) of 25%.'

Prospective investors are also buying an exposure to Henan Shuanghui, the largest Chinese pork producer which is strongly cash generative and offers a 5% dividend yield. Henan is 'very dominant in terms of its own business,' according to Negyal, who says 'the outlook for growth is positive thanks to the upgrade potential of Chinese consumers', i.e. the middle classes trading up to more expensive food products.

In the beverages space, another A-share holding is Jiangsu Yanghe Brewery, which is 'very, very domestically orientated, but it is taking its brands and expanding into other provinces in China. What has impressed me is the level of detail and rigour with which they are implementing their strategy. Impressive management is another feature of why some of these A-shares are attractive to me.'

'From a value opportunity perspective, the Russian market looks very interesting today,' says Negyal. 'We've been adding to Sberbank, the dominant banking franchise in that market, where we've seen an increase in dividend payouts.'

'South Africa has amongst the highest quality management teams in the asset class. They've been reinvesting profits for growth and paying dividends to their shareholders,' says Negyal, bullish about the high quality management team at leading South African bank FirstRand.

One significant headwind for the trust over time has been its lack of ownership of high-flying internet-related stocks such as Alibaba, Tencent, Naspers and NetEase. These don't fit with the trust's strategy 'to find good quality income producing stocks which have the capability to grow over the medium term.' (JC)

Can Thomas Cook and TUI shares take off?

We compare the tour operators and explore their different strategies for growth

Freezing January temperatures are a likely catalyst for people to start planning their sun-soaked getaway, city break or quiet retreat through tour operators such as **Thomas Cook (TCG)** or **TUI (TUI)**.

WHO HAS DELIVERED BETTER RETURNS

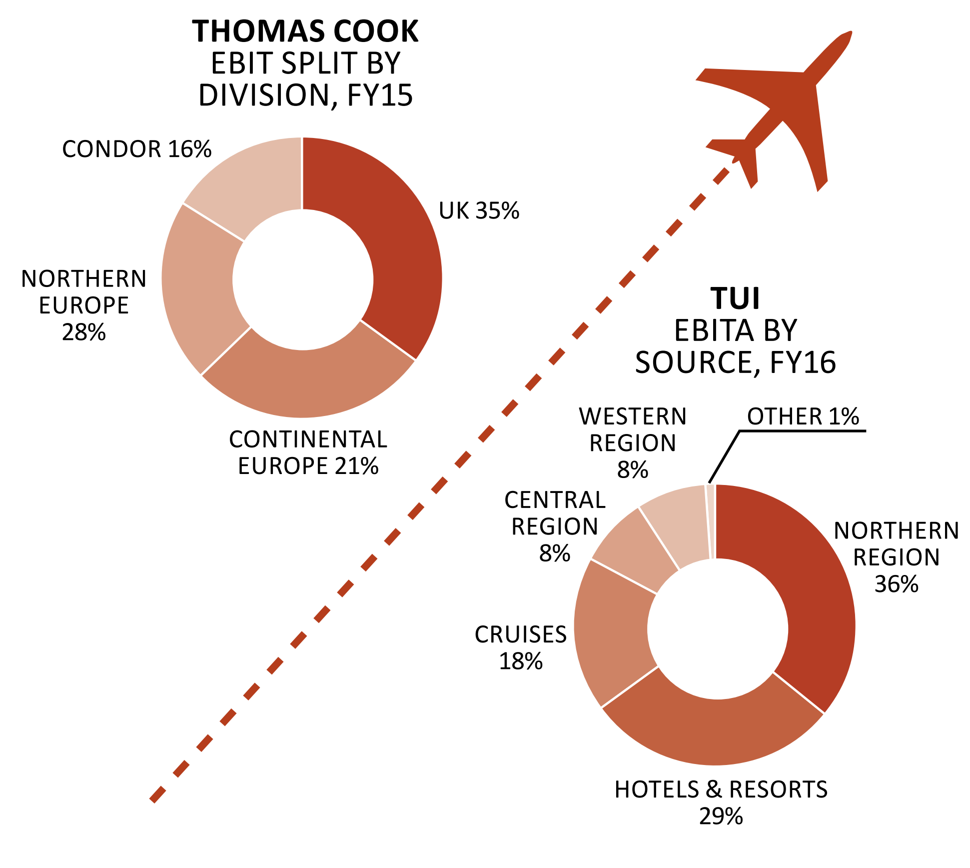
Over the last five years, investors would have made the most money from Thomas Cook, which has a £1.91bn market value, with a 132.5% return.

TUI is worth £9.12bn. Investors would have only benefited from a 43.5% return over the same period.

In part this reflects the fact Thomas Cook has been in recovery mode for a large chunk of this period, the shares having hit rock bottom at little more than 10p back in 2012. In the interim the business has drastically reduced indebtedness - from more than £860m to around £40m.

Tour operators allow customers to buy package holidays online, through a distribution network or via third-party travel agents.

Both Thomas Cook and TUI are seasonal businesses, generating the majority of their revenue and earnings from the summer season. Investors should therefore not be spooked by losses over quieter months.



Source: HSBC Global Research

It is easy for investors to think of these rivals as purely tour operators, but these firms focus on different areas and pursue growth through distinct strategies.

An exciting catalyst for Thomas Cook is its joint venture with Chinese conglomerate Fosun, while TUI plans to sail to a sunnier outlook by increasing its cruise ship capacity.

SHIFTING SALES FROM IN-STORE TO ONLINE

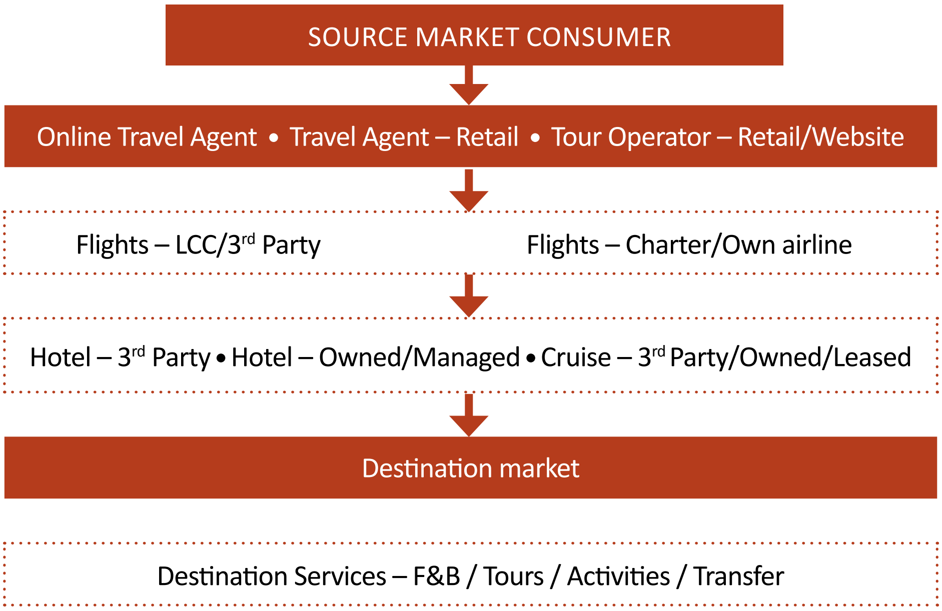
A big threat to the leisure sector is a shift from physical stores to online sales, helping drive the growth of competitors such as beach holidays specialist **On The Beach (OTB)**.

But HSBC analyst Ali Naqvi argues holiday package sales have remained resilient, expecting growth of 2% to 3% per annum over the next three years.

This is not the only issue looming over performance. Nearly a decade on Thomas Cook is still recovering from difficult trading during the financial crisis, while there are concerns over higher costs at TUI.

As demand is subdued for

TOUR OPERATOR BUSINESS MODEL



Source: HSBC

destinations in the Eastern Mediterranean and North Africa, there are worries that hotel suppliers in Greece and the Canaries could demand more cash.

HOW DOES THOMAS COOK STAND OUT FROM THE CROWD?

Thomas Cook is a leisure travel firm that operates in the UK, Continental Europe and Northern Europe. It generates nearly three quarters of overall sales in the UK and Continental Europe.

The company owns German airline Condor and Thomas Cook Airlines Scandinavia, and has long leases on several planes. Seats are available to the tour operator to sell to customers through the Thomas Cook website or through distribution channels.

HSBC says investors are overlooking a faster than expected recovery of the airline division due to more long-haul destinations and a better performance at Condor.

Thomas Cook's joint venture with Fosun expands the tour operator's reach by offering domestic, inbound and outbound travel services to China.

Since launching Thomas Cook China in September 2016, 20,000 customers have flown to China. The company aims to increase the numbers ten-fold from this modest base in 2018.

WHAT DOES TUI DO?

Formed through the merger of TUI AG and TUI Travel in 2014, TUI is a leading European tour operator that specialises in sales and marketing, as well as holiday experiences.

Customers can create their own holidays, choosing their own hotels, cruises and flights thanks to the firm's owned and third-party flying capacity.

The sales division provides over 20m customers every year with personalised holiday experiences through multiple channels and travel agencies. Overall, sales and marketing contributed 44% of earnings in the year to 30 September 2017.

Accounting for the rest of earnings are hotel and cruise activities including 380 hotels globally in hotspots such as the Western and Eastern Mediterranean, North Africa, the Caribbean and Egypt.

Hotels operate under an ownership, lease, management or franchise model, while TUI's own brands include Robinson, TUI Magic Life and TUI Blue.

Whether customers are looking for a luxury cruise or expedition experience, TUI can accommodate a range of preferences through 16 cruise ships across three brands, TUI Cruises, Marella and Hapag-Lloyd.

WHAT AFFECTED PERFORMANCE IN 2017?

Shares in Thomas Cook took a battering in November as investors were shocked by a weaker gross margin due to competition and higher costs, particularly for holidays to Spain.

This short-term disappointment should not mask the progress the travel agent has made progress with its turnaround. In the year to 30 September, underlying profit from operations rose 28% to £330m and sales increased 15% to £9bn.

Demand is starting to recover for holidays to Turkey and Egypt, while sales for this summer are strong with higher prices.

TUI had an easier ride in 2017, delivering 12% growth to €1,102m thanks to strong growth in its hotel and cruise brands. It hopes to maintain annual earnings growth upwards of 10% until at least 2020.

HOW IS GROWTH BEING ACHIEVED?

Thomas Cook is focusing on a portfolio of own-brand and partner hotels, helping to push up selling prices and margins.

It has 20 own-brand hotel openings in the pipeline over the next 18 months in destinations including Spain, Italy, Crete and Croatia.

Berenberg's Stuart Gordon threw cold water on Thomas Cook's progress. He argues there was little disruption outside of its control, yet earnings growth lagged as more cost-cutting is required.

He sees no end to competitive pressures that undermine performance with restructuring costs expected to hit £100m a year for the foreseeable future.

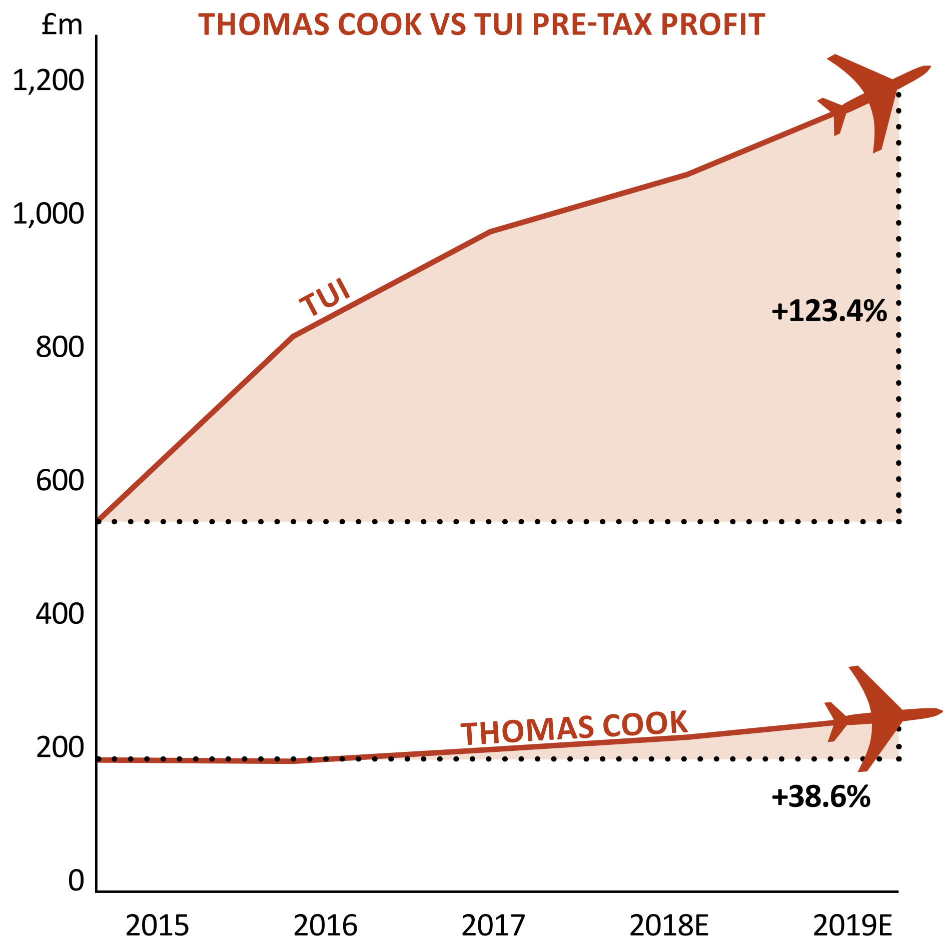
By the end of 2019, TUI plans to open between 40 and 50 new hotels, which are anticipated to provide €3m of EBITA per hotel.

The group's portfolio of owned/leased hotels will be largely based in the Western Mediterranean, Caribbean and Asian destinations.

HSBC's Navqi points out that this geographic focus is significant as these regions are resilient long-haul holiday destinations and historically have been less impacted by geopolitical incidents.

A recovery in Turkey could help earnings beat expectations as hotel bookings are up 70% for this summer.

TUI also plans to boost capacity in the cruise market, with six new cruise ships



Source: Reuters.
For the year to 30 September

planned by 2019.

Naqvi says investors are underestimating earnings potential from new ships. The analyst has pencilled in a 5% boost to earnings before interest, tax and amortisation (EBITA) over the longer term.

JP Morgan's Jaafar Mestari says TUI's €16bn disposal of three large assets - HotelBeds, Travelopia and Hapag Lloyd - should cover most capex and aircraft financing until 2019.

PARTNERING FOR SUCCESS

Thomas Cook diverges from TUI through its greater reliance on partnerships.

Apart from the tie-up with Fosun, the tour operator is working with industry investor LMEY to create a joint hotel investment platform that can boost growth in its own-brand hotels and resorts.

In September 2017, Thomas Cook sealed a deal with Expedia to cut costs and expand choices for customers. Expedia will use its tech to deliver additional bookings to the tour operator by offering over 60,000 extra hotels in global cities and Europe.

Thomas Cook has also agreed with Webjet to take over contracting sun and beach hotels for the firm. The firm can further invest in this area through its option to include its beach package holidays on Expedia sites globally. (LMJ)

Ryanair can fly higher

Airline still expected to have much lower ex-fuel costs than rivals

Budget airline **Ryanair (RYA)** appears to be an attractive investment proposition as investors are overestimating risks from additional costs and potential strike action.

Last year, Ryanair failed to properly plan pilots' holiday leave, resulting in thousands of cancelled flights and a promise to splash out €100m annually to bump up pay.

But despite these issues UBS analyst Jarrod Castle says the shares have the potential to fly 18% higher to €18.65 over the next year.

POTENTIAL €3BN PAYOUT

Castle reckons the airline can return over €3bn to shareholders over the next three years, supported by strong cash generation.

In the half year to 30 September, Ryanair delivered over €935m in net cash and used €639m for share buybacks.

The airline has impressive earnings momentum. Pre-tax profit is anticipated to rise from €1.47bn to €1.6n in 2018. This is expected to grow further to €1.64bn in 2019.

CATALYSTS FOR GROWTH

Positive consumer sentiment, encouraging winter capacity growth and rising fares are all catalysts for the business.

UBS' Castle dismisses concerns over slowing airline spend, highlighting a 5% rise in the average number of transactions per customer across the industry in the year to 30 September 2017.

Ryanair is still popular despite its problems in 2017 and in the third quarter of the year, its transaction share was up 11% year-on-year.

UBS PRICE TARGET IMPLIES NEARLY 20% UPSIDE

To place this in context **EasyJet (EZJ)** and British Airways owner **International Consolidated Airlines (IAG)** declined by 4% and 7%, respectively.

Higher winter capacity could also provide an additional uplift in trading. It is anticipated to grow 6.5% on long haul routes and 5.6% for short haul destinations, according to UBS.

WHY RYANAIR MIGHT HAVE TO HIKE TICKET PRICES

In October, the airline reported ticket prices are expected to fall by between 4% and 6% in the year to 31 March 2018.

Ryanair has hedged 90% of its fuel at $49 per barrel and 45% of its fuel at $48 per barrel in the half year to 30 September 2018. While hedging will lock in lower prices for some of the airline's fuel, a recent rally in prices could be a headwind.

The price of Brent crude oil currently stands at $69.70 per barrel, which is likely to push up costs on remaining fuel and could drive up fares from 2019 onwards.

However, Davy Research argues that Ryanair's ex-fuel costs are still likely to be materially lower than its rivals, and this will help underpin future growth. (LMJ)

Carr's is on the comeback trail

Recovery at agriculture-to-engineering firm has real traction

Recovery investors should bag shares in agriculture-to-engineering combine **Carr's (CARR)**. The company's first quarter update (9 Jan) highlighted improving performance in both the agriculture and engineering divisions which was 'significantly ahead' of last year. Investec Securities has a 'buy' rating and 195p price target for Carr's, implying upside of more than 37%.

AGRI-TECH EXPOSURE

Investors often overlook agricultural technology markets. This seems curious as they are global, vast and offer attractive long-term returns, as farmers will adopt new technologies that deliver clear returns. Supplying value added products and solutions to customers around the world, Carr's offers a compelling play on the agri-tech theme.

Its Agriculture division manufactures and supplies feed blocks for livestock, farm machinery and runs a UK network of rural stores, providing a one-stop shop for farmers. Carr's Engineering arm makes specialist equipment for use in the nuclear, petrochemical, oil and gas, pharmaceutical, process and renewable energy industries.

BATTLING BACK

Carr's profits slumped last year amid weaker demand in the US feed market, caused by lower cattle prices, and due to a major engineering contract delay.

Against this backdrop *Shares* is heartened by Carr's positive first quarter update. 'We are seeing the continued recovery across both divisions and the investments we have made in acquisitions and

research will continue to act as a solid foundation for ongoing growth,' enthused CEO Tim Davies.

Within UK Agriculture, farm incomes and farmer confidence are improving, boosting Carr's machinery sales and with UK feed block sales also remaining strong. Across the pond, US feed block sales volumes continue to recover with a tailwind from improving cattle prices for producers.

Over in Engineering, the major UK nuclear contract announced last summer is underway and running to schedule, with Carr's remote handling businesses performing well.

The integration of $20m acquisition NuVision, an engineer bringing a foothold in the main nuclear markets of the US, is progressing as planned and Carr's is excited by the opportunity to market the equipment of its German remote handling business Wälischmiller in the USA thanks to this deal.

For the year to August 2018, Investec forecasts a rebound in pre-tax profit to £15.2m (2017: £11.4m) for earnings per share (EPS) of 11.5p, ahead of £16.6m pre-tax profit and 12.7p of EPS in 2019.

Based on next year's forecast earnings, Carr's looks good value on a prospective PE of 11.2 times. Investors are also being paid 3%, based on this year's anticipated dividend hike from 4p to 4.3p, while they wait for Carr's the recovery to come through.

SHARES SAYS: ↗

Buy at 142p, with both divisions showing improvement and Carr's offering an attractive 3% yield. (JC)

BROKER SAYS: 1 1 0

Why President Energy's shares can keep rising

Newly acquired field producing more cash than expected

Latin American oil and gas play **President Energy (PPC:AIM)** is generating more cash than expected from its recently acquired Puesto Flores field in Argentina.

A combination of higher oil prices and a low-risk approach to expanding Argentinian production makes President's shares look an attractive investment proposition.

At 11p the shares are up nearly 60% since we flagged them in April 2017; and we think they've got much further to travel.

President says Puesto Flores, acquired in September 2017 along with the neighbouring and currently shutdown Estancia Vieja field, is benefiting from a realised oil price upwards of $60 per barrel and the improving production profile.

In January President is expected to generate $4.5m from its share of output in Argentina.

The company's 2018 work programme, which is fully funded from existing resources and this cash flow, includes testing on Estancia Vieja, action to lift output from existing wells on Puesto Flores, and development/appraisal drilling in the second half of the year.

President chairman and chief executive Peter Levine comments: 'With all our concessions in Argentina and Louisiana making profitable contributions we continue to focus on growth in shareholder value both organically and through the right acquisitions whilst maintaining our core emphasis on positive cash and margins.'

SHARES SAYS: ↗

President's low-risk approach to boosting output should generate further value and fuel momentum in the share price. Buy at 11p. (TS)

BROKER SAYS: 1 2 0

TechFinancials play on cryptocurrencies

TINY DERIVATIVES TRADING platform provider and technology developer **TechFinancials (TECH:AIM)** is exciting speculators thanks to its stake in a blockchain-based diamond exchange.

The company bought a 2% stake in Cedex in December for $200,000, but it has an option to buy up to another 90% of Cedex.

Cedex has seen bumper demand for its tokens from Japanese investors, which are paying for them using popular cryptocurrencies Bitcoin and Etherium. (SF)

Silence Therapeutics benefits from innovative gene tech

BIOTECH BUSINESS **SILENCE Therapeutics (SLN:AIM)** could benefit from a rapid growth in ribonucleic acid (RNA) therapies between 2017 and 2022. The market is expected to be worth over $7bn at the end of this period according to Peel Hunt.

Silence does not use gene-editing CRISPR technology, its platform is focused instead on preventing disease-causing genes from communicating. (LMJ)

Redhall going upmarket

Engineering firm **Redhall (RHL:AIM)** is getting a better quality and quantum of orders, building on an encouraging full year performance in 2017.

The delayed £8m contract on the Hinkley Point nuclear plant is now expected to complete in 2018.

The company raised £9.5m through a placing in June 2017 in order to be able fulfil its growing order book. In the last 12 months the shares are down 20% at 8.5p. (DS)


SHARES
INVESTOR EVENINGS

Combining investment growth with security in retirement

Investors no longer face a blunt choice between annuities and drawdown

If you're approaching retirement and can't decide whether you want the flexibility of income drawdown or the security of annuities, combining the two could provide the answer.

This blended approach gives you the opportunity to keep growing your money while still receiving a guaranteed income for life.

WHAT'S THE DIFFERENCE BETWEEN AN ANNUITY AND DRAWDOWN?

Annuities and income drawdown sit at opposite ends of the investment risk scale.

An annuity provides a guaranteed income for life. How much income you get depends on factors like your health and lifestyle, how big your pension pot is, annuity rates at the time you buy the policy, and where you expect to live when you retire.

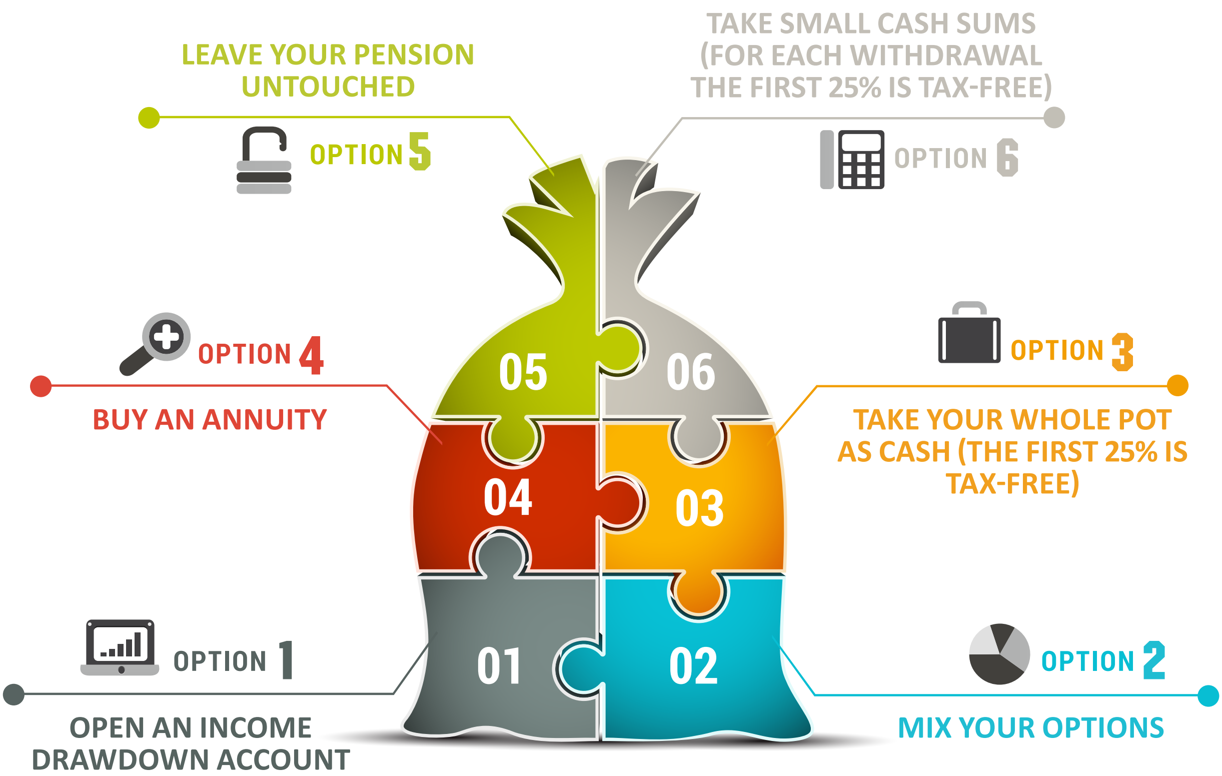
An annuity could be suited to someone who qualifies for an enhanced annuity because of ill-health, who has little or no appetite for investment risk, or whose income needs are unlikely to change significantly during their retirement.

Once you buy an annuity, you can't change your mind.

With income drawdown, your pension money remains invested. You can decide which investments your money is put into and how much income you want to take.

Drawdown income is not secure. Your money could run out if you withdraw too much, you live longer than expected or your investments don't perform as you hoped.

Drawdown can be appealing to investors who have other



sources of income or want to flex their income to meet their individual needs.

WHY SHOULD I THINK ABOUT COMBINING THE TWO?

Combining the two approaches enables you to benefit from a guaranteed lifetime income in addition to investment growth.

Fiona Tait, technical director at Intelligent Pensions, says many investors want to achieve both flexibility and security, particularly if they are facing the possibility of 20 to 30 years in retirement.

'This allows the individual to cover some or all of their fixed expenses, with the flexibility to adjust their withdrawals for discretionary expenses and also to potentially offset some of their income withdrawals with investment growth,' she explains.

It's worth remembering that if you use drawdown you can buy an annuity at any time in the future with all or part of your fund. Annuity rates typically become more attractive in older age.

HOW DO I COMBINE THEM?

The two main routes to combining annuities and drawdown are do it yourself or opt for a 'hybrid' product.

The DIY approach involves using a portion of your pension pot to buy an annuity and putting your remaining funds in a drawdown account.

Tom Selby, senior analyst at AJ Bell, says you shouldn't use a single provider for both products because you might be able to get a better drawdown deal elsewhere.

The advantage of doing it yourself is the invested portion will be tailored to your own circumstances.

HYBRID PRODUCTS

A hybrid product enables you to combine annuities and drawdown in a single wrapper. Hybrid solutions are offered by companies such as Retirement Advantage and LV=.

Andrew Tully, pensions technical director at Retirement Advantage, says annuity income can be reinvested within the drawdown wrapper, which can create significant tax planning advantages.

You can choose to de-risk your drawdown portfolio by gradually buying annuities over time, any of which can have different guarantees and death benefits.

Annuity income can be stopped and started at any point in a combination plan, unlike traditional annuities where it is fixed.

Fiona Tait of Intelligent Pensions says hybrid products are advantageous in that you only have one plan and one income payment to keep track of. In addition, the annuity portion often offers more flexible benefits than a conventional annuity, particularly around death benefits.

'These advantages do however typically come with either an increased cost or some kind of restriction such as reduced investment choice,' she adds.

Blended plans are only available to buy through a regulated financial adviser. Tait suggests seeking financial advice regardless of the solution you choose.

'A financial adviser can help you to create an income plan and calculate how much of your fund should be used to secure guaranteed income and to plan withdrawals from the remainder so that they are unlikely to run out too soon,' she says.

'The financial adviser will also be able to recommend a reasonably charged product and source the most favourable annuity rate for your age and state of health.' (EP)

COULD ANNUITY RATES IMPROVE?

One of the reasons why annuities have become increasingly unpopular in recent years is the rapid decline in the annual payouts on offer from insurance companies.

This has been driven by a steady drop in yields on long-term gilts issued by the UK Government, partly as a result of the post-financial crisis Quantitative Easing (QE) programme.

Insurers buy gilts in order to pay incomes to annuity customers, so when the yield drops the rates offered also drop.

AJ Bell's Tom Selby says if interest rates and gilt yields start to pick up from their current levels then annuity rates should follow suit.

This, in turn, would mean a smaller proportion of your pension would be needed to secure your minimum income requirements and more of it could be invested for growth.

There is, of course, no guarantee interest rates will rise this year.

What to do if you've paid too much into your pension

A simple guide to understanding tax rules associated with retirement savings

For most savers their biggest retirement problem is finding enough spare cash to build a decent sized retirement pot. However, a significant number of high earners will face a very different problem as the 31 January deadline for filling out their 2016/17 online tax return approaches.

Complicated rules that restrict the amount people with total income over £150,000 can pay into a pension each year kicked in during the 2016/17 tax year. Many of these savers will have been oblivious to the changes and paid in too much as a result.

THE ANNUAL ALLOWANCE TAPER – A BRIEF GUIDE

Normally pension savers are entitled to an annual allowance of £40,000. However, for those with 'adjusted income' above £150,000 the annual allowance gradually reduces by £1 for every £2 of income earned, to a minimum of £10,000 for those with adjusted income above £210,000.

'What on earth is adjusted income?' I hear you ask.

Adjusted income incorporates your gross income from ALL sources including things like dividends, bank interest and rental income, plus employer pension contributions.

If your adjusted income is above £150,000, your 'threshold income' would also need to exceed £110,000 for the taper to kick in.

Threshold income is simply: Gross income from all sources (as in the adjusted income calculation) + any salary sacrifice arrangements set up on or after 9 July 2015 – any personal contributions where HMRC has automatically granted tax relief – any taxable lump sum death benefits you have received.

PAYING IT BACK

If you think that all sounds horrendously difficult – you're right! In reality lots of people will have no idea what their adjusted income is, or simply won't know the tapered annual allowance rules even exist.

As a result many will accidentally breach the annual allowance and face a surprise bill from HMRC. Someone who paid in £40,000 during the year when their annual allowance was £10,000 could be hit with a tax bill of up to £13,500.

If you find you have paid too much into your pension you could use 'carry forward' rules to reduce or even wipe out your tax charge. Carry forward allows you to utilise any unused tax allowance from the previous three tax years for 2016/17 – meaning someone who hadn't paid in anything into their pension in those years could get an extra £120,000 of tax-free allowance.

If you can't carry forward any unused pension you might be able to get your provider to deduct it from your pension pot, or alternatively you can simply pay the tax as part of your tax return.

Clearly this is all extremely complicated, so if you are at all unsure of what you owe or how you can repay it, it's worth speaking to a regulated financial adviser.

Tom Selby,
Senior Analyst, AJ Bell

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- AIM
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