STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 20 / ISSUE 03 / 25 JANUARY 2018 / £4.49

SHARES

WE MAKE INVESTING EASIER

THIS WEEK:
SHELL, DIGNITY, DIXONS, TAPTICA
AND MORE

THE BIG OIL COMEBACK

THE RISING PRICE IS FANTASTIC FOR OIL FIRMS, SERVICE PROVIDERS AND INCOME FUNDS

US STOCK MARKET CORRECTION AHEAD?
Warning sign from Treasury yields movement

FUND COST SHOCK
Why many funds are more expensive than you thought

INSIDE: A STEP-BY-STEP GUIDE TO RIGHTS ISSUES

ADVERTORIAL

THE SENECA GLOBAL INCOME & GROWTH TRUST PLC

SENECA INVESTMENT MANAGERS

INTRODUCTION TO THE TRUST

- The Seneca Global Income and Growth Trust plc is designed for investors seeking a quarterly income with long-term capital growth and low volatility.
- The Trust employs a proprietary Multi-Asset Value Investing approach. The core principle of value investing, buying good quality assets when they are low is traditionally associated with equities. We apply a value approach to everything we do. Led by Peter Elston, the Investment Team manages the Trust through in-depth research into asset allocation and the various asset classes we invest in.
- In the UK, we focus on mid-cap equities. For overseas equities and fixed income, we use third party funds which share our value style. Elsewhere, we focus on property, infrastructure, specialist finance and private equity which we call specialist assets. Each area contributes both to the capital return and the income generation of the Trust.

Find out more about Seneca Investment Managers at Senecaim.com or call us on 0151 906 2450

GROWTH, INCOME AND LOW VOLATILITY

- The Trust pays quarterly dividends, offering a current yield of circa 3.7%[1]. Over its last four financial years to April 2017 the Trust has grown its dividend at a compound rate of 4% per annum, ahead of CPI every year.*
- Over a typical investment cycle[2], we aim for the Trust to achieve a total return of at least CPI plus 6% after costs, with low volatility. In addition, we aim to grow aggregate dividends at least in line with inflation.
- Over the five years to end December 2017, the Trust delivered an NAV return of +67.3% with volatility close to half of the major equity indices[3]. Details of the Trust's returns can be found in the performance tables below.

Cumulative performance (%)	3 months	6 months	1 year	3 years	5 years
Trust share price	0.7	3.4	15.2	46.1	94.6
Trust NAV	1.1	4.8	14.4	38.8	67.3
Benchmark	2.3	4.5	6.3	14.0	22.2

Discrete annual performance (%)	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Trust share price	15.2	14.3	11.0	6.1	25.4
Trust NAV	14.4	12.5	7.8	2.7	17.4
Benchmark	6.3	3.6	3.6	3.6	3.5

THINGS TO BE AWARE OF

[1]Current yield: the yield calculation is based on the latest quarterly dividend, annualised, compared against the month end share price.

[2]Seneca IM define a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period.

[3]Annualised volatility of returns over five years versus FTSE World ex-UK, FTSE UK Private Investor Balanced, AIC Flexible Investment Sector, FTSE All Share and Investment Association Mixed 40-85% shares.

*There is no guarantee that dividends will continue to increase or grow ahead of CPI.

Performance and dividend data sources: Seneca Investment Managers Ltd (SIML), Bloomberg & Morningstar. Share prices calculated on a total return basis with net dividends reinvested. NAV returns based on NAVs excluding income and with debt valued at par. Returns do not include current year revenue. Benchmark: LIBOR GBP 3 Months +3% to 06.07.17 thereafter CPI +6% after costs. Past performance should not be seen as an indication of future performance. The information in this article is as at 31.12.17 unless otherwise stated. The value of investments and any income from them will fluctuate, and investors may not get back the full amount invested.

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All calls are recorded. FP18/023

The underappreciated risk to a strong oil price

While higher commodity valuations are reason to celebrate, just watch out for marginal projects popping up

The recovery in the oil price to $70 per barrel is one of the most significant events to happen in the natural resources industry for a long time. It transforms the finances of many companies and it should open up development of new projects and rejuvenate the supply chain.

While we discuss the positive implications in detail in this week's digital magazine, I thought it worth pointing out one potentially negative implication from a stronger oil price – and that's the pursuit of projects that only work at higher prices.

This is a really important point to consider if you're thinking about investing in the natural resources sector. It also applies to mining projects as well, assuming the relevant metal or energy prices are also in a rising trend.

EXPERIENCE PAYS OFF IN RESOURCES INVESTING

I've been writing about the resources sector for the past 13 years. I started covering the mining sector just as the previous commodities bull-run was taking shape. I've seen the way the industry works in boom times and I've also seen how it collapses in bad times. This experience has given me a more rounded view of the broader sector which is necessary to properly analyse stocks.

If you've only been investing in this space for the past few years, I'd highly recommend chatting to more seasoned investors about what they saw when commodity prices fell in previous years – as life got very ugly for the sector.

In good times, you tend to see exploration firms start to work on marginal projects that are only economical at strong commodity prices. Management will inevitably convince investors that prices are only going one way (upwards) and that their company will be making good profit margins by the time the project is in production.

You cannot assume prices will keep rising. When looking at an exploration project, it is important to understand the potential operating cost before considering an investment. The lower the cost the better as that provides some cushion to still make money even if commodity prices start to ease back.

What's really interesting, and perhaps underappreciated, is the fact that many of the large oil producers have spent the past few years streamlining not only their asset base but also their operations. They now have more efficient businesses and can survive at lower oil prices. Therefore the current oil price strength should enhance profits in a significant way.

To me, that makes them far more attractive investments than an exploration firm with a 'hot prospect' that only works if oil prices don't fall back.

RARE OPPORTUNITY WITH SHELL

Royal Dutch Shell (RDSB), in particular, looks very attractive as an income and growth play. It has underperformed the rising oil price since November 2017, making now an ideal time to pick up shares as historically it has displayed very close leverage to the performance of the oil price, so underperformance may not last long.

That said; buying oil shares does require taking a view on the long term demand for oil. Bank of America Merrill Lynch sees peak oil demand in 2030 with the rise of the electric vehicle industry as a long-term threat to oil demand. Big oil companies will likely have to shift to natural gas and chemicals in order to prosper long term. (DC)

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IMPORTANT

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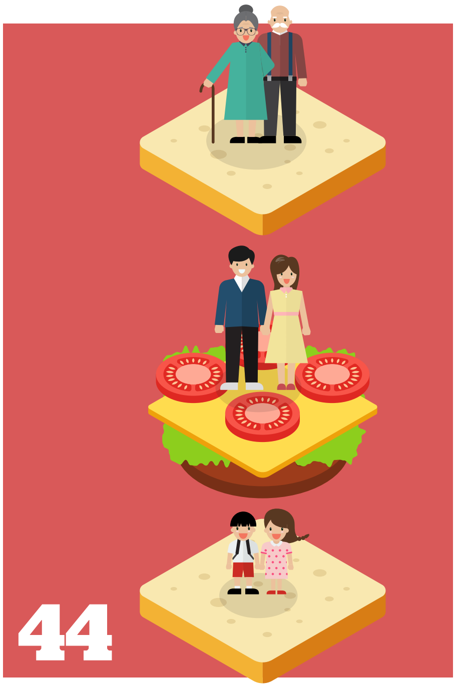

WHO WE ARE

EDITOR:
Daniel Coatsworth
@SharesMagDan

DEPUTY EDITOR:
Tom Sieber
@SharesMagTom

NEWS EDITOR:
Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:
James Crux
@SharesMagJames

REPORTER:
David Stevenson
@SharesMagDavid

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

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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.

US treasury yields hit highest level since 2014

We explain the significance of this event and why it could signal an imminent US stock market correction

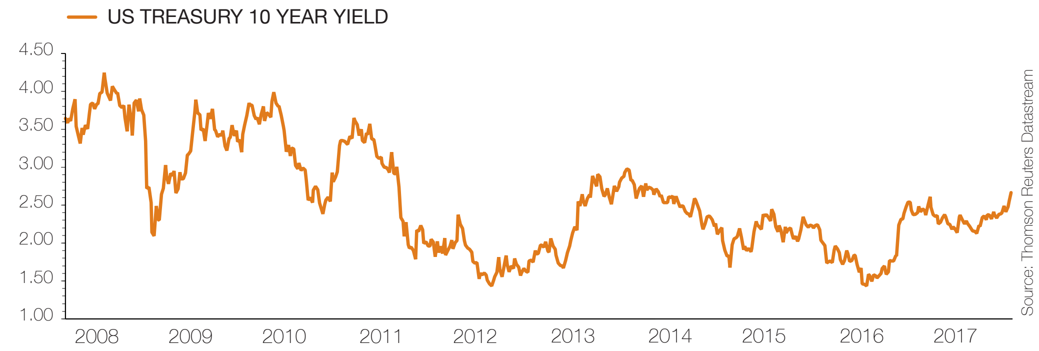
Rising US Treasury yields could reflect waning market faith in the Trump administration amid continuing political ructions in Washington as well as expectations for further rate hikes from the Federal Reserve. Yields rise as bond prices fall.

After climbing for a third consecutive week, the yield on the 10-year US Treasury bond has hit its highest level since 2014 at more than 2.6% amid a US government shutdown.

Although a short-term deal was reached to end the impasse on 22 January, just before that event the two-year bond at 2.07% eclipsed the dividend yield on the S&P 500. This key crossing point is seen in some quarters as a sign that a US stock market correction could be looming.

If the income on offer from low-risk government bonds is higher than more risky equities, then investors may begin to trim their exposure to the latter in favour of the former.

Capital Markets chief markets economist John Higgins reckons 10-year treasury yields will continue to rise in 2018 as the Federal Reserve increases rates at a faster-than-expected rate, but that they will peak at 3% before falling in 2019. (TS)



Top performing funds are harder to find

Asset manager survey shows fewer names delivering top quartile returns

DATA FROM BMO Global Asset Management shows the number of funds delivering top quartile performance is running below the historic average.

According to its Fund Watch survey, 1.24% of funds delivered consistent top quartile performance over three years as at the end of the fourth quarter of 2017.

This compares to 0.8% at the end of the third quarter of 2017 and the historic average of between 2% and 5%.

The most consistent funds sector for top quartile returns was IA £ Strategic Bond at 4.6%, followed by the IA UK Smaller Companies (4.4%) and the IA Japan sector (4.2%).

The amount of funds generating above-median returns in each of the last three 12-months fell from 9.7% to 9%. All 12 main IA sectors had funds which met the criteria. The IA UK Smaller Companies was the most consistent sector with 17.4% of funds achieving the feat.

Kelly Prior, an investment manager in BMO's multi-manager team, comments: 'Our survey shows fund managers are still finding it challenging to deliver consistent performance over the long-term.

'While we have seen a slight increase in the number of funds delivering top quartile performance over three years, it's still falling short of the industry average.' (TS)

Market shock after Dignity unveils radical new pricing structure

Analysts spell out the impact on profit and ability to keep servicing debt

The stock market can have a nasty habit of dishing up unexpected news and we've seen many examples over the past few weeks.

Retailer **Carpetright (CPR)**, logistics firm **Connect (CNCT)** and teleradiology services group **Medica (MGP)** are three examples of stocks that have taken the market by surprise with negative news this year.

You can now add funeral services provider **Dignity (DTY)** to the list.

Its shares fell 48% to 988.81p on 19 January 2018 after the company announced a dramatic change to its funeral pricing in order to deal with competitive pressures.

This decision was a shock to shareholders, analysts and the media including ourselves, as the company hadn't previously talked about making such severe changes to its business.

Analysts were forced to downgrade their 2018 pre-tax profit forecasts by nearly 50% for 2018.

WHAT'S HAPPENED?

Dignity's 'simple' funeral price has been reduced by 25%, from £2,700 to just below £2,000.

Furthermore, Dignity is freezing the price of 'traditional' funerals at circa £3,800. Stockbroker Numis says prices for these types of funerals would normally go up by 5% a year.

Dignity says the pricing changes could result in 'simple' funerals accounting for 20% of all its funerals performed in 2018 versus 7% in 2017. 'Traditional' funerals last year accounted for 60% of Dignity's volumes.

Michael Donnelly, an analyst at stockbroker Panmure Gordon, believes 'this aggressive and decisive action' will provide a strong response to increasingly aggressive competition from both Co-operative Funeralcare and others. 'That should, in due course, arrest the decline in Dignity's market share and, eventually,

allow (inflation-level) price rises to resume,' he adds.

Based on forecasts from investment bank Investec, Dignity now has a net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) ratio of 5.7 times for 2018. Most companies try and keep that ratio below 3.5-times. Dignity's net debt is forecast to be £494.1m at the end of 2018.

Essentially, the pricing amendments mean Dignity's debt position compared to its forecast earnings is now at a much higher level, leading some investors to worry about its ability to service the debt. Investec says it has no concerns on that front.

'According to the latest bondholder report (for September 2017) Dignity's financial covenants require EBITDA to be at least 1.5 times the debt service cover, which is £33m each year out to 2049,' comments Investec.

'We now forecast EBITDA of £86.4m in full year 2018 and £89.3m in full year 2019, some 2.6-2.7 times the debt service cover. Indeed the crematoria business alone generates some £40m of EBIT each year.' (JC)

Bookies bashed on £2 betting stake cap reports

It could lead to a big hit to earnings for some gambling stocks

Renewed suggestions the maximum stake on a fixed-odds betting terminal (FOBT) will be cut from £100 to £2 have rocked the gambling industry.

The stock market value of the sector tumbled on 22 January following reports that new culture secretary Matt Hancock favours tough curbs on the controversial machines.

Consultation on the FOBT review closed on 23 January but a final decision isn't expected until the second quarter of 2018 at the earliest.

Fixed-odds betting terminals are a key source of income for bookmakers with high street shops. Therefore a significant cut to the maximum stake could have a negative impact on their future earnings, hence why shares in **Ladbrokes Coral (LCL)** and **William Hill (WMH)** were particularly weak on the £2 stake speculation.

A final decision isn't expected until the second quarter of 2018 at the earliest

The market had appeared to be pricing in a maximum stake of £20 so the double-digit share price falls in these names at the start of the week was perhaps unsurprising.

GVC (GVC), which recently agreed a deal to buy Ladbrokes Coral, saw a more modest share price fall and subsequently recovered its losses.

This could reflect the fact the terms of its takeover deal with Ladbrokes are dependent on the outcome of the FOBT review and it could therefore end up paying less than the headline figure of £3.9bn to buy the business.

The implication the Government reached its view before the end of the consultation period has led some observers to suggest bookmakers might seek a judicial review into the decision. (TS)

Connect crashes on profit warning

LOGISTICS COMPANY **Connect (CNCT)** released a nasty profit warning on 22 January along with other bad news.

The company says its pre-tax profit for its 31 August 2018 year-end will come in short of market expectations.

Hopes for a £11.6m windfall from the sale of its books division are also now in jeopardy.

The buyer Aurelius has told Connect it 'can see no way of financing this transaction'. (DS)

Draper backing for cryptocurrency start-up

TECHNOLOGY VENTURE capital business **Draper Esprit (GROW:AIM)** is making a bold play on blockchain, the technology behind bitcoin and other cryptocurrencies.

The £316m company has invested £18m into a £56m series B funding for Ledger, a Paris-based cryptocurrency and blockchain security company.

Draper has a impressive record for making money on its IP-backed stakes, securing a 200% return from nine exits since its June 2016 IPO. (SF)

EMIS stung by after-care foul-up

HEALTHCARE IT supplier **EMIS (EMIS:AIM)** is facing up to £8m in one-off costs as result of service breaches and reporting failures. The issues relate to its EMIS Web suite sold to GP practices.

Management are still assessing the full impact but it appears likely that the company will face financial penalties, to be paid to the NHS.

Fortunately, EMIS is in rude financial health, with net cash of £14m at the end of 2017 topping market expectations of £8m. (SF)

AN OPPORTUNITY NOT TO BE MISSED

JPMorgan Multi-Asset Trust plc combines sustainable income and capital growth from globally diversified investments. The Trust will aim to achieve a long-term total return of 6% per annum and an initial annual dividend of 4% paid quarterly. **Your all-in-one income and growth solution.**

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J.P.Morgan
Asset Management

6.9%

China's rapid growth fed by mounting debt pile

CHINA'S LATEST OFFICIAL economic growth numbers are in, showing surprisingly strong economic growth through 2017 of 6.9%. That's up from a 26-year low in 2016 of 6.7%, according to Bloomberg statistics, and beating the government's own 6.5% target.

Yet this brings the soaring debt mountain of the world's second largest economy into focus. China's phenomenal growth has been largely fuelled by surging debt. The country's total outstanding debt was worth an enormous 274% of its GDP in the first half of last year, more than double the ratio from 2008, according to an estimate from Deutsche Bank.

China's government wants to address its huge debts as part of a crack down on financial risk, pollution and poverty in the coming years.

23% CVS surges on sales recovery

SHARES IN veterinary services provider **CVS (CVSG:AIM)** rebounded by 23% to £12.68 after reporting (18 Jan) a recovery in like-for-like sales growth in November and December. This was a relief to investors who'd been stung by a disappointing trading update on 30 November 2017 which triggered a major share price sell-off. Since the start of its financial year on 1 July 2017, industry consolidator CVS has spent around £28m on a total of 29 acquisitions of 30 surgeries, bringing the total number of surgeries to 453. Chief executive Simon Innes says the pipeline of acquisitions in the UK and the Netherlands remains strong.

90% OF CHEMRING'S PRE-TAX PROFIT WIPED OFF BY EXCEPTIONALS

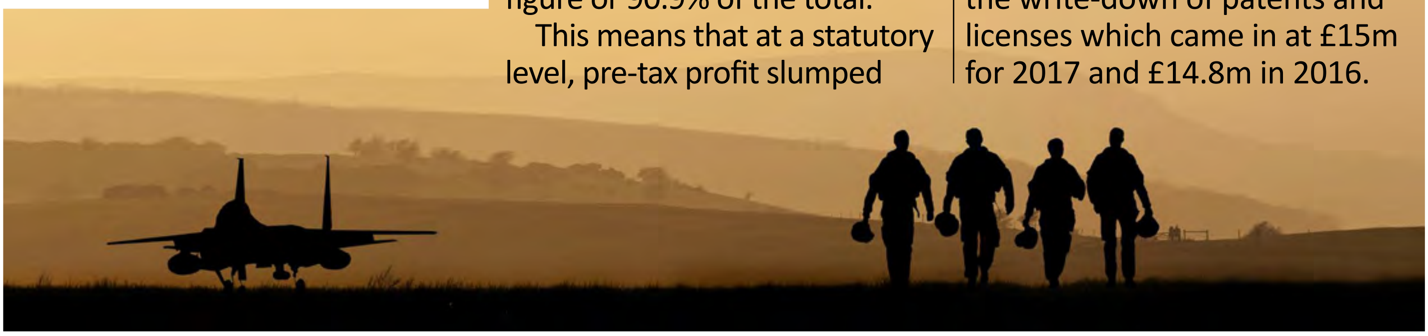
CHEMRING'S (CHG) reported 30% increase in underlying pre-tax profit to £44.1m may sound like great news.

However, one-off items or exceptionals take £40.1m off the figure or 90.9% of the total.

This means that at a statutory level, pre-tax profit slumped by half, from £8m in 2016 to £4m last year.

The one-off items include acquisition and disposal costs as well as business restructuring.

One cost that is likely to recur for the current financial year is the write-down of patents and licenses which came in at £15m for 2017 and £14.8m in 2016.



Quixant is a super growth selection for your portfolio

There is significant upside potential for gaming controls designer

Both **Quixant (QXT:AIM)** and its share price have been on a great two-year run but we believe 2018 could be even better. Rapid growth, a technological edge and decent pricing power could help the shares reach 600p. If, as we hope, a contract with a tier-1 manufacturer comes the shares could move even higher.

Quixant is a Cambridge-based company that designs the logic boxes that control pay-to-play digital gaming machines – one arm bandits, quizzes, bingo, casino games, etc. The logic box basically acts as the brains behind the games.

Outsourced logic boxes are fast becoming the norm across the vast and competitive gaming machine industry because it frees game manufacturers to concentrate on game design and development, the key selling point that pulls players from one terminal to another. Quixant's all-in-one boxed solution offers a low-cost, high-quality and innovative solution.

QUIXANT ↗ BUY
(QXT:AIM) 437.5p
Stop loss: 350p

Market value: £287m

LARGE MARKET SERVED BY FEW

There are about 8m gaming machines installed worldwide, according to estimates, yet 90% of them are made by just five top tier manufacturers; a couple in the US, one in Australia, two more in central Europe. That covers gaming machines installed from Las Vegas to London, Monte Carlo to Macau.

To date Quixant's success has been built on supplying smaller game machine makers outside that group. But importantly, management are on cozy terms with all of the tier-1 suppliers top brass, with small scale projects undertaken with each of the big five.

Large scale adoption of outsourced logic boxes is widely believed to be a matter of when, not if, and the impact on Quixant revenue would be significant. Quixant management says that a typical tier-2 contract would be for approximately 10,000 logic boxes, in a good year. A similar tier-1 order would be 10 times that amount.

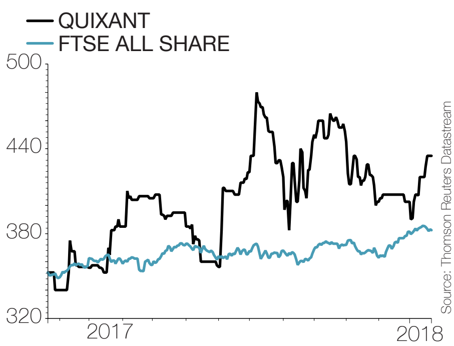
WIDER OPPORTUNITIES

In the interim, gambling liberalisation in several global markets (Japan, Singapore) continues to expand Quixant's overall opportunity. There's even talk of Brazil going down a similar path, where analysts see scope for 250,000 gaming machine installations, if rules do change.

Quixant has won a hard-earned reputation for outperforming forecasts while at the same time delivering excellent cash-backed profit. In the first half of 2017, pre-tax profit growth ran at 77% to \$9.2m after adjusting for modest amortisation and share-based payments, on a 38% increase in revenue.

Analysts at independent broker Canaccord are forecasting \$16.8m of adjusted pre-tax profit for the year to 31 December 2017 rising to \$20.3m this year, roughly chiming with consensus. That implies a 2018 price to earnings multiple of 23.9. (SF)

BROKER SAYS: 2 0 0



Back cashed-up Taptica's M&A drive

Acquisitions could help deliver significant earnings upgrades in coming 12 months

The deployment of a $50m acquisition war chest at mobile advertising platform **Taptica (TAP:AIM)** could prompt near 30% upgrades to earnings forecasts if it manages to make good acquisitions, according to investment bank Berenberg.

This would provide another leg to the growth story and help drive further momentum in a share price which is already up more than 450% in the last 18 months.

TAPTICA BUY
(TAP:AIM) 447.5p
Stop loss: 358p
Market value: £279m

WHAT DOES THE COMPANY DO?

Taptica is a 'user acquisition platform' which focuses on mobile and social media. In plain English this means it helps clients to run more effective advertising campaigns through a platform which helps target ads appropriately.

The ultimate aim is to help convert mobile website, social media and app user traffic into paying customers.

The company operates a performance-based marketing model and therefore gets a slice of the user revenue it helps drive for its customers.

Its platform is used by top global brands including Amazon, Facebook, Twitter, Starbucks, Uber and Samsung.

Historically *Shares* was sceptical on the story after a big crash for the ad-tech space in 2015 driven by fears over fraudulent online ads and ad-blocking technology.

The company's track record in the interim has led us to change our minds and although we have missed out on some big gains we still see merit in buying at the current price.

We are particularly reassured by the fact earnings are increasingly backed by cash. In the first half of 2017 adjusted earnings before interest, tax, depreciation was up more than 40% year-on-year at $13.1m while cash flow more than trebled to $13.7m.

STRENGTHENED BALANCE SHEET

Taptica recently raised $30m to bolster its balance sheet (15 Jan) and Berenberg analysts comment: 'Our scenario analysis indicates that if Taptica deploys its balance sheet firepower over the coming year, there could be 20% to 29% upside to our 2018-20 earnings per share estimates.'

A 2018 price-to-earnings ratio of less than 15 times based on Berenberg's existing forecasts does not look too demanding.

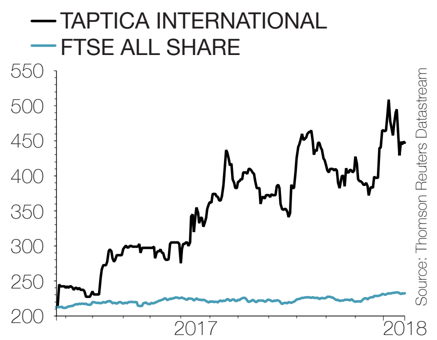
Deals are likely to be used to accelerate expansion in key markets including Europe and Asia Pacific as well as to plug technological gaps.

There are risks attached to the story, nonetheless. A focus on M&A brings integration risk although we note its recent track record of finding quality businesses is good, as illustrated by the fact its Tremor Video DSP acquisition from August 2017 is proving to be a particularly good deal.

Investors should also be wary of any future regulatory changes to the way online ads are bought or sold.

Taptica pays a small dividend, yielding approximately 1%. You're really buying the shares for capital growth. (TS)

BROKER SAYS: 1 0 0



ALLIANCE PHARMA
(APH:AIM) 71p

Gain to date: 13.6%

Original entry point:
Buy at 62.5p, 21 December 2017

ALLIANCE PHARMA (APH:AIM) has issued a reassuring trading statement, saying that full year revenue for 2017 will be 6% higher on the previous year at £103.3m.

Alliance Pharma is one of our top stock picks for 2018 as we like its growth potential, which is expected to be supported by targeted marketing and bolt-on acquisitions.

The company acquires and licences pharmaceutical and healthcare products to deliver to patients.

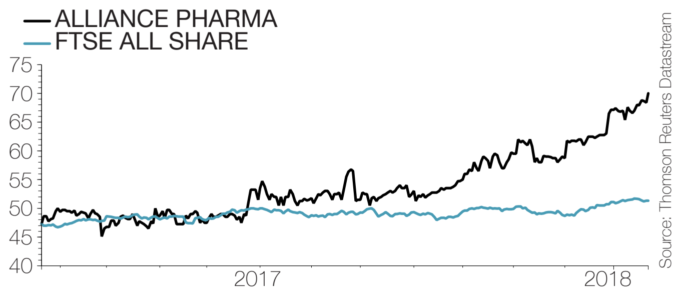
Sales of scar reduction product *Kelo-Cote* jumped 33% to £13.3m in 2017. Age-related macular degeneration treatment *MacuShield* sales rose 37% to £7.3m in the same period.

The weaker pound had a beneficial effect on revenue, but had less of an impact on operating profit due to higher costs, leaving 2017 pre-tax profit in line with expectations.

Cash generation increased significantly from £13m in 2016 to £21.5m in 2017, helping to drive debt lower.

Numis analyst Sally Taylor says the recent acquisition of **Smith & Nephew's (SN.)** topical gel *Ametop* and worldwide rights of **TyraTech's (TYR:AIM)** head lice treatment *Vamousse* should help lift sales by 11.5% in 2018.

The analyst forecasts continued double-digit sales growth momentum for *Kelo-Cote*, *MacuShield* and *Vamousse* in 2018.



SHARES SAYS: ↗
Keep buying the shares. (LMJ)

BROKER SAYS: 1 0 0

UBM
(UBM) 885.5p

Gain to date: 23.6%

Original entry point:
Buy at 716.5p, 11 May 2017

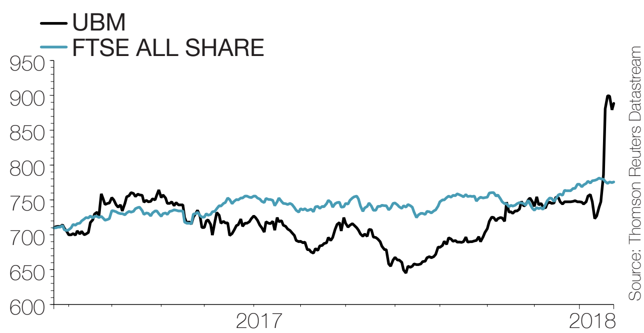
WE WERE CLEARLY not the only ones who reckoned **UBM's (UBM)** refined focus on the events industry made it an attractive proposition. Rival **Informa (INF)** has swooped (17 Jan) with a £9bn takeover offer.

It's time to take profits on UBM, cashing in a handsome 23.6% gain. We're getting out now as the market thinks Informa is overpaying for UBM. We also don't believe there will be a counter bid.

The combined entity is expected to be 65.5% owned by Informa shareholders and 34.5% owned by UBM shareholders. The proposed transaction will see UBM shareholders receive 1.083 Informa shares plus 163p in cash, amounting to 972p per share.

Investec analyst Steve Liechti says: 'This implies an enterprise value of £4.5bn for UBM and a very high 2018 pre-synergy EV/EBITDA of 14.6 times or 12.9 times on our assumed £40m savings (1.5% of total combined sales).'

In Liechti's view this is a 'full price'. He adds: 'We see a good potential deal for UBM given a nice implied exit premium vs growth questions.'



SHARES SAYS: ↘
Although the shares are trading some way below the implied offer price we think it is prudent to book profit now, just in case the deal falls through. We also don't want to inherit Informa shares. (TS)

BROKER SAYS: 4 7 2

DIXONS CARPHONE

(DC.) 199.9p

Gain to date: 5%

Original entry point:

Buy at 190.35p, 21 December 2017

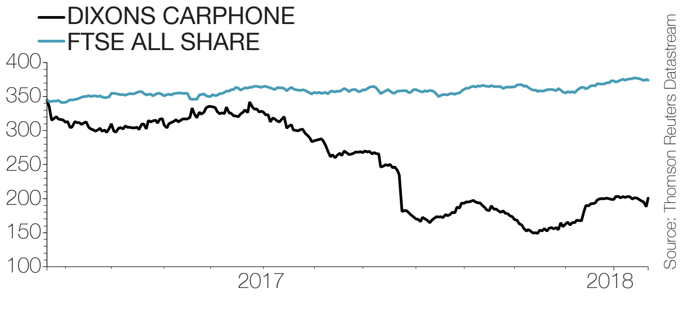
OUR BULLISH CALL on electricals-to-telecoms retailer **Dixons Carphone (DC.)** is 5% in the money. There's much more to come as the shares emerge from last summer's profit warning-induced doldrums.

Dixons Carphone delivered news of healthy Christmas trading on 22 January. Group like-for-like sales grew 6% in the 10 weeks to 6 January 2018, buoyed by strong performances in the Nordics and Greece, while UK & Ireland like-for-likes were up 3% despite the disposable income squeeze.

However, the top end of the £2.32bn cap's full year profit before tax guidance is lower, downgraded to a £365m-to-£385m range from £360m-to-£400m previously.

We welcome the appointment of Shop Direct boss Alex Baldock, who brings digital expertise, as Dixons Carphone's new CEO. He succeeds Sebastian James who is moving to join Boots later this year after six years in the hot seat.

Numis forecasts profit before tax of £370m (2017: £489m) for the year to 30 April 2018, ahead of £375m in 2019. Based on a flat 11.3p dividend this year and next, Dixons Carphone is grudgingly valued on a 5.7% dividend yield.



SHARES SAYS:

At 199.9p, we're hanging on for further upside and have high hopes Baldock can inject fresh impetus into the Dixons Carphone story. (JC)

BROKER SAYS: 11 5 0

DP EURASIA

(DPEU) 229p

Loss to date: -0.4%

Original entry point:

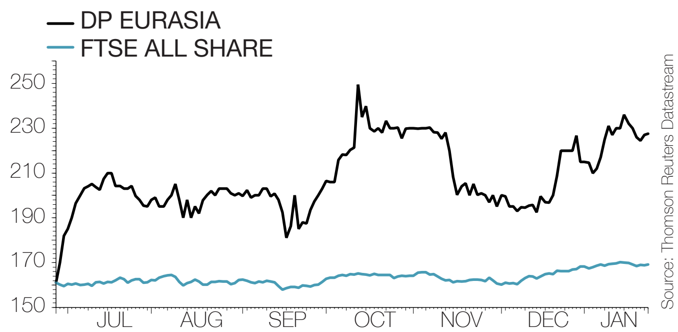
Buy at 230p, 9 November 2017

THE OPERATOR OF the *Domino's Pizza* franchise in Turkey and Russia, **DP Eurasia (DPEU)** starts 2018 on a buoyant note after opening more stores and posting stronger than expected trading for 2017.

Among the reasons why we highlighted the stock in November 2017 was that it was on the cusp of achieving 50% of its sales online. Many Domino's franchisees in other parts of the world have seen like-for-like sales accelerate when hitting this metric. The latest trading update (23 Jan) shows 51.8% of DP Eurasia's group sales were achieved online last year.

More than 70 new sites opened during the year including the 500th Turkish outlet and 100th Russian store and like-for-like system sales growth was also robust; Turkey up 10% and Russia 28.9%.

Liberum has reiterated its 310p price target and 'buy' rating. Analyst Wayne Brown says: 'Our confidence in forecasts is high, as not only is top-line beating expectations but strong operational leverage across all geographies is forecast. These should combine to deliver strong shareholder returns.'



SHARES SAYS:

Keep buying. (TS)

BROKER SAYS: 5 0 0

FRIDAY 26 JANUARY

FINALS	
Kcell	KCEL
AGMS	
JPMorgan Chinese Investment Trust	JMC
Treatt	TET
ECONOMICS	
UK	
Preliminary GDP	
High Street Lending	

MONDAY 29 JANUARY

FINALS	
Porvair	PRV
SThree	STHR
INTERIMS	
Conviviality	CVR
Filtronic	FTC
TRADING STATEMENTS	
Petra Diamonds	PDL
Yu Group	YU.
AGMS	
Easyhotel	EZH
Invesco Perpetual Enhanced	IPE
Lowland Investment Company	LWI

TUESDAY 30 JANUARY

FINALS	
Oxford Biodynamics	OBD
INTERIMS	
Filtronic	FTC
NWF	NWF
PZ Cussons	PZC
TRADING STATEMENTS	
Avocet Mining	AVM
CYBG	CYBG
Domino's Pizza	DOM
UDG Healthcare	UDG
AGMS	
Hollywood Bowl	BOWL
Patisserie Holdings	CAKE
Greencore	GNC
SolGold	SOLG
Servoca	SVCA
UDG Healthcare	UDG
Utilitywise	UTW
ZPG	ZPG
ECONOMICS	
UK	
Mortgage Approvals	

WILL Domino's Pizza (DOM) continue to bounce back with strong trading or return to sluggish UK growth when it issues a trading update on 30 January?

In the 13 weeks to 24 September, the pizza delivery chain unveiled UK sales growth of 8.1%.

Investors should pay attention to any special deals at Domino's as these may have helped underpin trading in a competitive market. (LMJ)

BUSINESS-TO-BUSINESS publisher Euromoney Institutional Investor (ERM) is set to update on trading on 1 February.

With performance figures likely to feature in its 49%-owner Daily Mail & General Trust's (DMGT) first quarter update on 25 January, investors' focus may fall instead on Euromoney's newly acquired specialist unit covering the paper industry which was recently raided by EU antitrust authorities.

WEDNESDAY 31 JANUARY

FINALS	
Centamin	CEY
Low & Bonar	LWB
INTERIMS	
Angle	AGL
Best of the Best	BOTB
Joules	JOUL
Wizz Air	WIZZ
TRADING STATEMENTS	
Britvic	BVIC
Dairy Crest	DCG
SSE	SSE
AGMS	
Bilby	BILB
BMR	BMR
Britvic	BVIC
CYBG	CYBG
Finsbury Growth & Income Trust	FGT
Infrastrata	INFA
Renew	RNWH
Schroder UK Mid & Small Cap Fund	SCO
Sunrise Resources	SRES
Topps Tiles	TPT
ECONOMICS	
UK	
GfK Consumer Confidence	
BRC Shop Price Index	

INVESTORS EAGERLY AWAIT a full year trading update from Yu Group (YU.:AIM) on 29 January.

The business energy supplier has released a string of upbeat announcements since making it on to *Shares' Great Ideas* list in April 2017, when the stock was trading at 287.5p.

Today the shares change hands for 990p, a stunning return on the 185p per share stock market flotation price less than two years ago.

Forecasts suggest a 12-fold jump in 2017 pre-tax profit to £2.5m, with a near doubling again pencilled in for 2018.

THURSDAY 1 FEBRUARY

FINALS	
Royal Dutch Shell	RDSB
INTERIMS	
Rank	RNK
UK Commercial Property Trust	UKCM
Unilever	ULVR
TRADING STATEMENTS	
Cranswick	CWK
Euromoney Institutional Investor	ERM
Glencore	GLEN
Intermediate Capital	ICP
3i	III
RPC	RPC
Vodafone	VOD
AGMS	
Avon Rubber	AVON
Euromoney Institutional Investor	ERM
Premier Veterinary	PVG
Redhall	RHL
Stride Gaming	STR
ECONOMICS	
UK	
Manufacturing PMI	
US	
Non-Farm Employment Change	

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

HOW RIGHTS ISSUES WORK AND THE DECISIONS INVESTORS NEED TO MAKE

WE APPLY THE METHODOLOGY TO CINEWORLD'S LATEST FUNDRAISE AS IT ASKS INVESTORS FOR £1.7BN

European cinema operator **Cineworld (CINE)** last week contacted its shareholders to ask if they want to take part in a £1.7bn fundraising to help it buy US rival Regal Entertainment for £2.6bn.

Known as a 'rights issue', the exercise involves shareholders making the decision whether or not to buy discounted shares in the group.

Shareholders must take one of four routes. They can either buy some or all of their allocated stock; or they can sell all their rights. They can sell some of their rights and potentially used the proceeds to buy some of the cut-price shares (known as 'tail swallowing'); or do nothing at all.

We'll explain the different scenarios in this article which looks at the broader rights issue process and uses Cineworld as a working example.

WHY DO COMPANIES UNDERTAKE RIGHTS ISSUES?

Right issues can be an effective way for companies to raise new money for large acquisitions or strengthen their balance sheet.

The technique has been used by many well-known stocks over the years. For example, **Lloyds Banking (LLOY)** used a rights issue to raise £13.5bn in 2009. More recently, **Tullow Oil (TLW)** undertook an approximate £600m rights issue in 2017.

Rights issues aren't always welcomed by investors with open arms. Their discounted price tends to pull down the market price of a stock, so shareholders typically take a hit to the value of their investment.

Many companies would argue that's the price to pay to allow their business to grow – and that the longer-term benefits will more than compensate for the short term hit to the value of their shares.

WHAT HAPPENS NEXT IF YOU'RE INVESTED IN A FIRM HOLDING A RIGHTS ISSUE?

You need to ascertain why your investee company is asking for more money. Think about the following scenarios:

Does the desired cash only provide a quick fix to a financial problem and not a permanent solution?

If the rights issue isn't a permanent solution, you have to consider whether the company can generate the extra cash needed longer term from operations. Or will it have to take more drastic action such as selling assets, borrowing more money or tapping shareholders for more cash?

If the rights issue is to help fund an acquisition, is the acquirer paying the right or wrong price for the target business? Will the acquisition improve its scale? Will it boost or dilute group profit margins?

Cineworld has faced some criticism that is it paying a very high price for its acquisition of Regal and is taking on too much debt.

The company responded by saying the debt will be at more comfortable levels two years after the deal completes, and that the deal takes it into a new geographic region and creates $100m of pre-tax synergies a year.

FOUR OPTIONS FOR CINEWORLD INVESTORS AND THE COMPANY'S RIGHTS ISSUE

1. TAKE UP THE RIGHTS

Companies are normally offered the right to buy a set number of shares in proportion to the number they already hold. Cineworld is offering 4 new shares at 157p each for every 1 existing Cineworld share held in the business as at 31 January.

For example, someone with 100 Cineworld shares would have the chance to buy 400 new shares costing £628 in total.

2. SELL ALL OF YOUR RIGHTS

The rights associated with shares in a rights issue can be traded in the market and have an intrinsic value. These are known as nil-paid shares or nil-paid rights.

Shareholders are able to sell their rights to someone else and receive some money, all without having to sell their existing shares.

It is unlikely that stockbrokers would have the capability to let you trade the rights online, so you will probably have to place an order over the phone.

In order to calculate the price at which the shares could trade after a rights issue, analysts seek to calculate something called the 'theoretical ex-rights price'.

How does this work? Suppose you owned 100 shares in Cineworld ahead of its rights issue. The

OTHER WAYS COMPANIES CAN RAISE MONEY

Companies have several different ways they can raise money. This can include using bank debt or selling new stock to a group of institutional investors to raise cash.

Retail investors – i.e. the general public – tend to only be asked to stump up more money when a firm is targeting a very large acquisition; when a company wants to make sure investors of all types have a chance to help with the future of the business; or as a last resort when institutional investors don't want to part with any cash.

The three main ways in which retail investors can help fund a company are placings, open offers or rights issues.

A placing is the issue of new shares, either to existing shareholders or to anyone who wants them.

An open offer is similar to a rights issue, save that the right is not tradeable and there is no sale of rights. Open offers are typically combined with a placing.

market price of the shares stood at 563.5p the day before the 'four-for-one' rights issue (i.e. a shareholder could buy four shares for every one they already owned) was announced. The subscription price for the extra shares is set at 157p.

The value of your holding before the rights issue was announced was £563.50 (100 x 563.5p). If you decide to take up your full allocation, you would have to buy 400 new shares at the new price of 157p each. In that case the amount of cash passing to Cineworld would be £628.

The total value of your Cineworld shares would be £563.50 (your holding pre-rights issue) + £628 (the new shares acquired in the rights issue) = £1,191.50. You would own 500 shares in total.

In order to arrive at the theoretical ex-rights price we have to divide the new total value of the investment by the number of shares you'd own.

In this case £1,191.50 divided by 500 gives you 238.3p as the theoretical ex-rights price. In reality, the share price will also be affected by what motivated the rights issue and the company's particular circumstances at that time.

If you decide not to take up your allocation, you would still hold 100 shares and they'd be worth the theoretical ex-rights price of 238.3p each. The total value of your holding would be £238.30 which is just over half the value of your shares before the rights issue was announced.

What if you want to sell your rights? The value would be the difference between the ex-rights price and the subscription price which is 81.3p per share in the case of Cineworld (238.3p-157p). Based on our working example, you would receive £325.20 in cash by selling your rights (81.3p x 400 shares).

That would essentially enable you to recoup all of the lost value of your investment, as £238.30 (value of your shares based on the theoretical ex-rights price) + £325.20 (value of selling your rights) = £563.50.

Remember, your investment of 100 shares was worth £563.50 just before the rights issue terms were announced.

3. TAIL SWALLOWING (ALSO KNOWN AS SELLING SOME RIGHTS TO PAY FOR THE COST OF SOME NEW SHARES)

An alternative is to sell some of the rights to cover the cost of some of the new shares you buy in the rights issue.

Here, you would sell a sufficient number of the nil paid rights in order to take up the balance of your entitlement under the rights issue, using the net proceeds of the sale of the nil paid rights to enable you to do so.

As a consequence of tail swallowing, you would be required to make no further investment to take up the balance of your rights.

4. DO NOT TAKE UP THE RIGHTS

You could allow your rights to lapse. If the Cineworld share price is below the offer price of 157p on the subscription deadline, the nil-paid rights would expire worthless.

But if they are trading above 157p then you may receive a cash payment per nil-paid share approximately equal to the Cineworld share price less the offer price.

TIMETABLE FOR CINEWORLD'S RIGHTS ISSUE

Latest time and date for receipt of proxy forms
9.30am, 31 January 2018

Rights issue record date
4.30pm, 31 January 2018

Start of subscription period
5 February 2018

Dealings in new shares and nil-paid shares commence
8am, 5 February 2018

Existing 'old' shares marked 'ex-rights'
8am, 5 February 2018

Latest time for receipt of instructions for cashless take-up or disposal of nil-paid rights
3pm, 9 February 2018

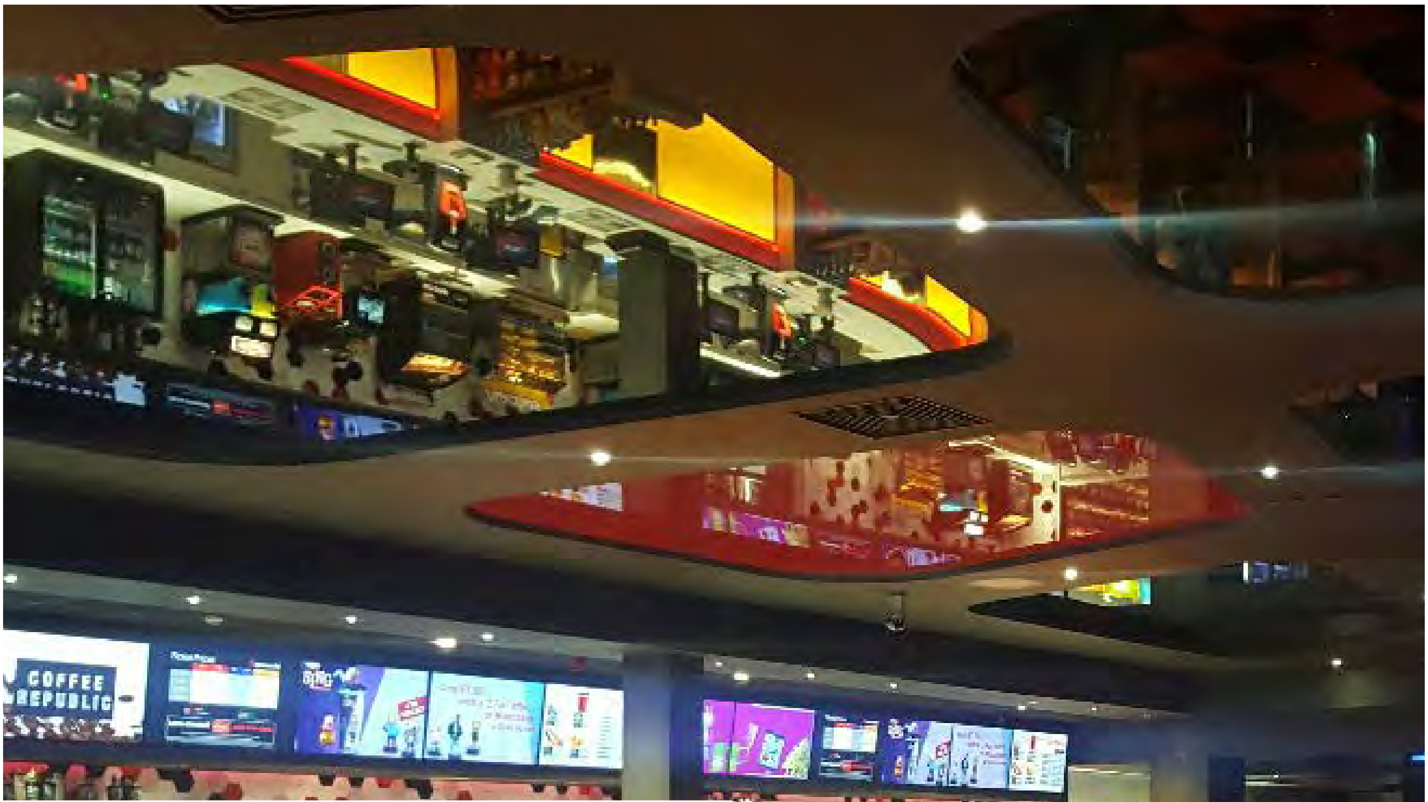
Dealings carried out in relation to cashless take-up or disposal of nil-paid rights
14 February 2018

Latest time and date for acceptance, payment in full
11am, 19 February 2018

Results of rights issue announced
8am, 20 February 2018

Expected completion date on, or prior to,
2 March 2018

Source: Cineworld



WHY DOES CINEWORLD WANT TO BUY REGAL?

Cineworld is the second largest cinema chain in Europe with operations in seven countries across Central Europe and Israel. It has been seeking a large acquisition to help it increase scale – and the Regal deal certainly ticks the right boxes.

Regal is the second largest cinema chain in the US. It has 561 cinemas; 7,315 screens; and accounts for approximately 20% of all box office sales in the US. It operates in 43 US states plus some Pacific sites including Saipan and Guam.

The company believes it can achieve $100m of pre-tax synergies a year. Chief executive Moshe Greidinger says examples of cost savings including paying less for screens, projectors and sound equipment, plus reduced corporate and advisory costs as Regal will no longer be listed on the New York Stock Exchange.

There remains some concern in the market that the company is over-stretching its balance sheet in buying Regal. Its ratio of net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) will go from 1.0 times to 4.0 times which is very high.

Greidinger says it will take two years until the ratio is reduced below 3.0, a more comfortable level. The deal is expected to boost earnings in the first full year following completion (2019 financial year).

> “EXAMPLES OF COST SAVINGS INCLUDING PAYING LESS FOR SCREENS, PROJECTORS AND SOUND EQUIPMENT, PLUS REDUCED CORPORATE AND ADVISORY COSTS AS REGAL WILL NO LONGER BE LISTED ON THE NEW YORK STOCK EXCHANGE”

SHARES SAYS: ↗

We see merit in the corporate marriage and believe investors should take up their full rights if you have spare cash; or sell some rights to fund the purchase of some new shares if you don’t have spare cash. (DC)

BROKER SAYS: 7 4 1

THE BIG OIL COMEBACK

THE RISING PRICE IS FANTASTIC FOR OIL FIRMS, SERVICES PROVIDERS AND INCOME FUNDS

Forthcoming quarterly results from the UK's two largest oil companies, **BP (BP.)** and **Royal Dutch Shell (RDSB)**, come at one of the most exciting times for their sector. Oil prices have started 2018 with a bang and are currently trading at levels not seen for three years at just under $70 per barrel.

We think the oil and gas sector is poised for a rebound as this oil price strength helps a streamlined set of companies deliver higher profit and cash flow and leads to improved investor sentiment.

In this article we will look at the major oil producers, the small and mid-cap exploration and production companies, alongside the oil services sector. It is also worth considering that BP and Shell are popular holdings among many income funds, so they too should enjoy uplift from the stronger oil price.

Furthermore, we take a look at the performance of oil over the last decade and highlight the key market-moving events over that period.

WHY ARE OIL PRICES RISING?

THE LATEST RALLY in oil prices has been driven by various factors. These include OPEC (a producers' cartel) production curbs, US dollar weakness, world economic growth and a surprise drawdown in US inventories.

And when the international benchmark for oil, Brent crude, hit $70 per barrel in early 2018 it marked a significant moment in the rehabilitation of the market after the collapse in 2014.

This had seen oil fall from more than $100 per barrel in June of that year to around half that level by the time we moved into 2015.

At its nadir in early 2016 the black stuff had traded below $30 per barrel for the first time since 2003. This was driven, in part, by the ramping up of production from US shale and supply concerns amid uncertainty in the global economy.

It also resulted from a failure

BP - Trans-Alaska Pipeline System

to act on the part of a Saudi Arabia-dominated OPEC which was looking to defend its market share against a flood of new unconventional US supply before eventually capitulating.

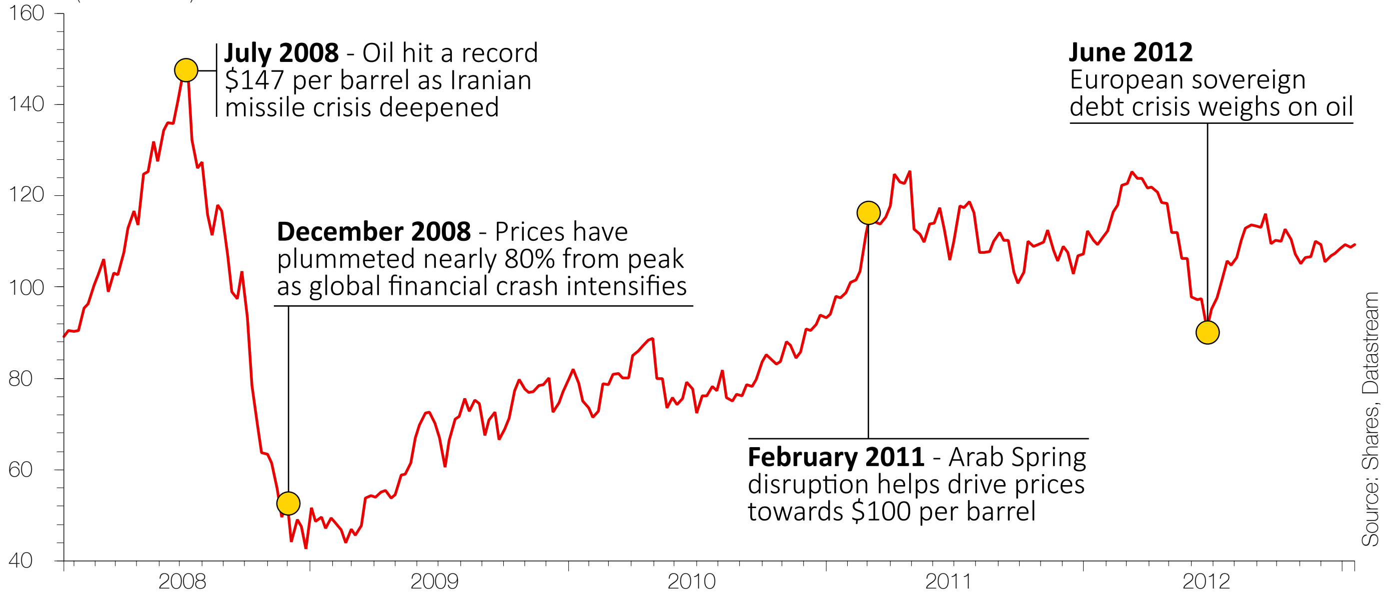
Analysts at investment bank Morgan Stanley recently upgraded their forecast for oil to hit $75 per barrel in the third quarter of 2018 – in part due to the behaviour of the oil futures market.

RISK WARNING

Oil prices can be highly volatile and would be vulnerable to a slowdown in economic growth or higher than expected supply from US shale producers lifting activity levels or OPEC members ignoring quotas.

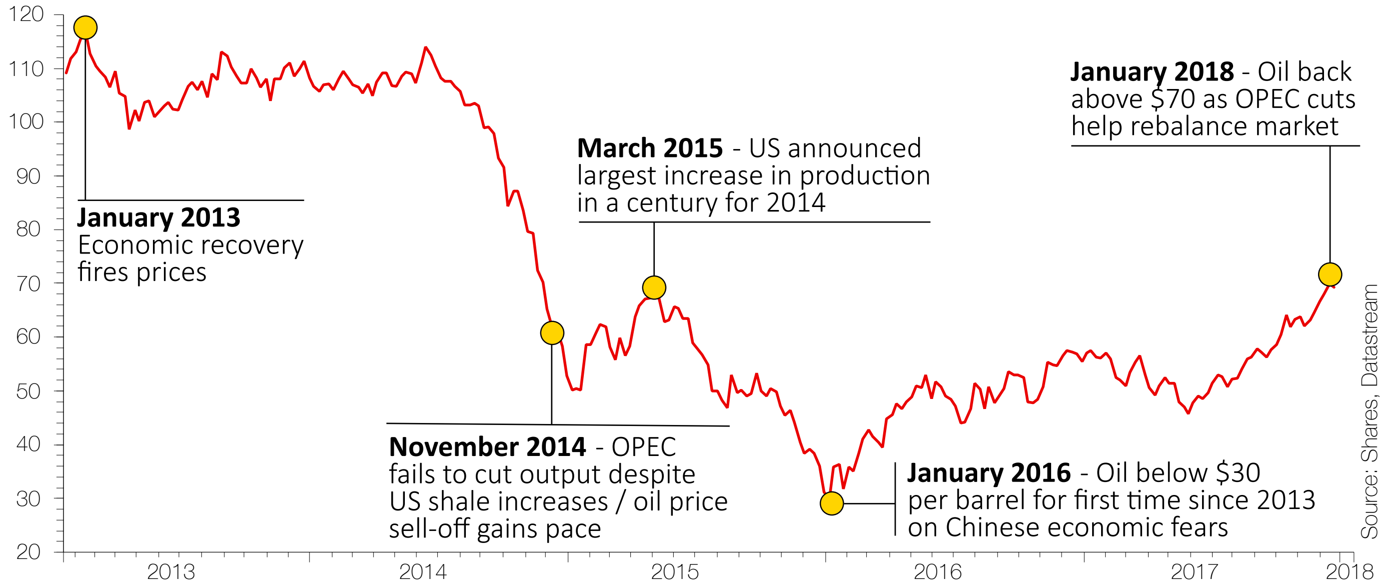
OIL PRICE 2008-2013

(Brent Crude)



OIL PRICE 2013-2018

(Brent Crude)



CONTANGO AND BACKWARDATION – WHAT DO THEY MEAN?

The oil market has been in a state of backwardation – we'll explain this in a second – since the end of 2017 and Morgan Stanley expects this trend to persist through 2018.

With the paper market in oil 50 times greater than that of the physical market in its estimation; the inflows from traders attracted by the attractive return profile created by backwardation can underpin oil.

So what does backwardation mean? First we need to understand something called contango.

Contango refers to the market condition whereby the price of a futures contract in a commodity is trading above the spot price. The resulting futures 'curve' would be upward-sloping with prices for dates further in the future trading at even higher levels.

Backwardation describes the reverse – where futures are trading below the spot price – often because of short-term tightness in the underlying market.

When an investor rolls contracts (sells them and buys new ones) to avoid taking delivery of raw materials, returns are diminished in the case of

WHO ARE THE OIL MAJORS?

YOU'LL OFTEN HEAR people talk about 'oil majors'. These are a group of multi-national oil firms which are given this title to reflect their size, vintage and the scale of their market position.

Most are 'integrated' businesses, meaning they have operations in oil and gas exploration, production, marketing, refining, transportation and distribution.

They include BP and Shell in the UK, France's Total and US names like ExxonMobil and ConocoPhillips.

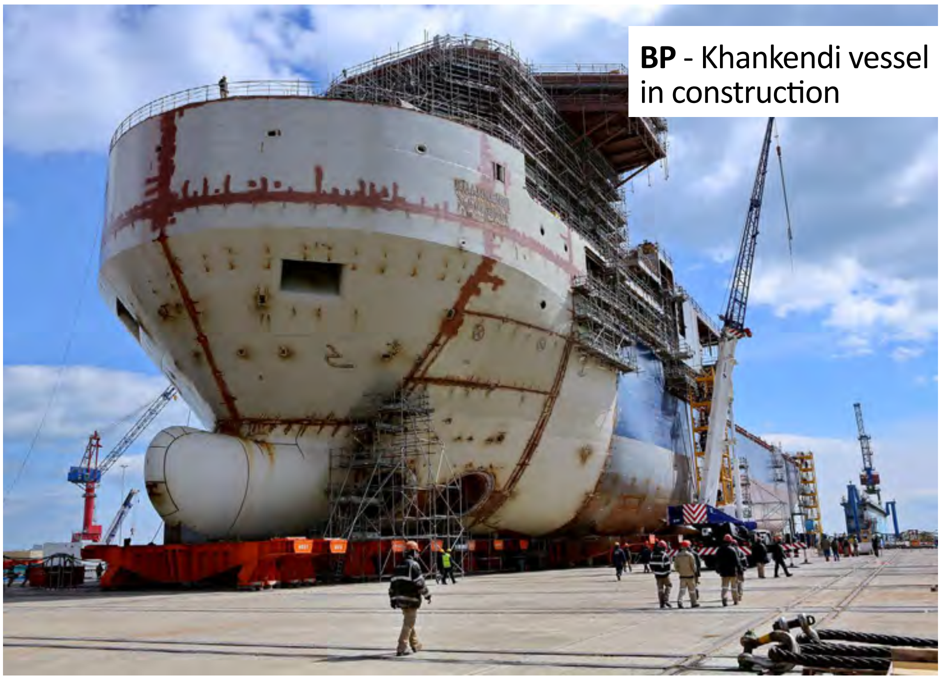
IMPORTANT DATES FOR UK INVESTORS

FOURTH QUARTER / FULL YEAR RESULTS

ROYAL DUTCH SHELL
1 FEBRUARY 2018

BP
6 FEBRUARY 2018

BP - View from the drill floor on one of its deep-sea platforms

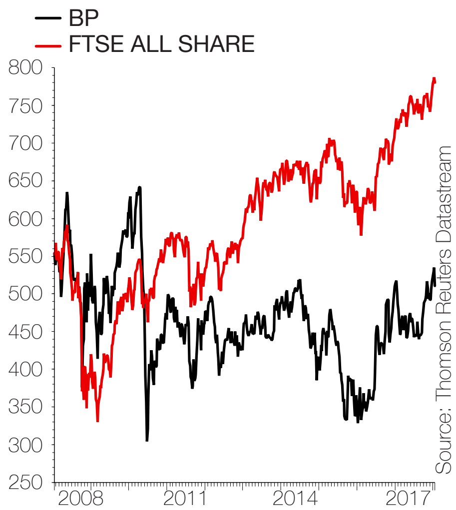


BP - Khankendi vessel in construction

contango. They are enhanced in the case of backwardation.

A key factor to watch later in the year is OPEC's next meeting on 22 June as the outcome could have a pronounced effect on the oil price (good or bad).

In November 2017 the oil producers' cartel extended production curbs which had been due to expire in March 2018 through to the end of this year. That in turn, as we discussed earlier, helped to support a rising oil price.



MAJOR OIL PRODUCERS

THE OIL PRICE collapse in 2014 forced oil producers to divest billions of pounds worth of assets as well as drastically scaling back costs and spending to adapt to harsh new realities.

Although still huge companies with large numbers of moving parts, both BP and Royal Dutch Shell are more streamlined operations than they were four years ago.

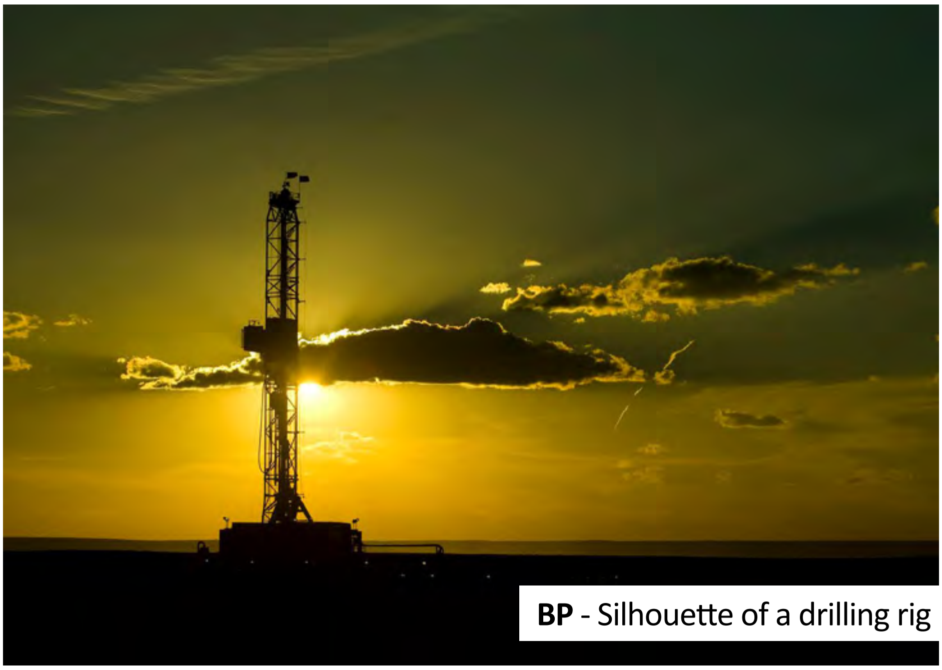
Investment bank Investec has previously commented 'there is good evidence to suggest that upstream profitability is independent of the oil price – costs adjust over time and the margin remains intact.' Upstream refers to finding and producing crude oil and natural gas. It is sometimes known as the exploration and production (E&P) sector.

BP and Shell have arguably been adjusting their cost base to balance the books at a price of around $50 per barrel. Given Brent averaged just over $50 per barrel in 2017 this was a sensible approach. At $70 per barrel there should be significant scope for positive earnings surprises.

Investment bank Morgan Stanley believes that even if oil stayed at just the $60 mark, the 'majors are set for record free cash flow, improving return on average capital employed and falling gearing'. Gearing is essentially the ratio of debt to the value of a company's shares.

WHAT TO LOOK FOR IN SHELL AND BP'S NEXT SET OF RESULTS

Some of the benefit from higher



BP - Silhouette of a drilling rig

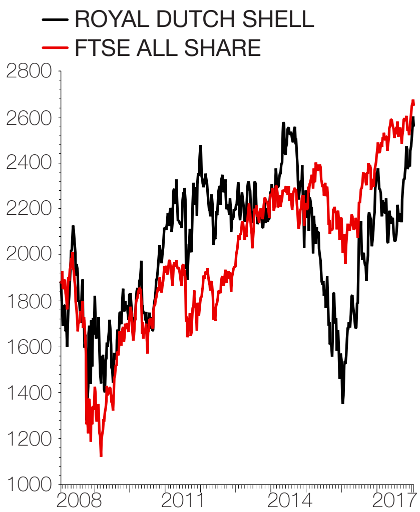
oil prices is likely to be reflected in forthcoming fourth quarter results although this may be slightly obscured by one-off charges.

Shell is setting aside $2bn to $2.5bn and BP has allocated $1.5bn to cover the impact of US tax reform. They have to recalculate the deferred tax assets built up on their balance sheets.

In both cases the cut in US corporation tax from 35% to 21% is expected to be a long-term positive and these write-offs won't have any impact on cash flow.

BP's results will be further obscured by a $1.7bn charge relating to the 2010 Deepwater Horizon oil spill in the Gulf of Mexico. This follows higher than expected BEL (Business Economic Loss) claims linked to the disaster. For this reason, Shell looks a lower risk way to play the oil price recovery for the time being, although you could argue that all these bits of news are already in the market and therefore already priced in to their shares.

Investment bank Macquarie says of the 11 global integrated oil firms it covers in terms of equity analysis, 'Shell's portfolio is the largest and remains robust;



Shell - Pipelaying vessel

we estimate it will have the highest level of production and cash flow growth relative to its large cap peers'.

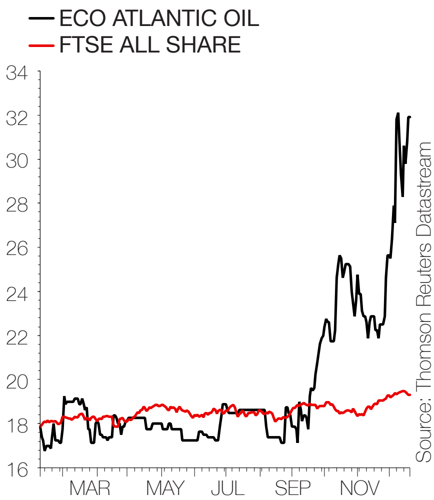
THE E&P SECTOR

UNLIKE THE INTEGRATED oil majors, E&P companies focus purely on the 'E' – exploration – and 'P' – production – sides of the industry. In the UK most of these companies are either small or mid-cap operations.

Higher oil prices are useful to these operators in several ways. For example, it should make a significant difference to producing companies' financial position.

Premier Oil (PMO), for example, should be able to materially reduce the $2.7bn debt position built up during the financial crisis. It has operating costs of between $18 and $19 per barrel and is ramping up production from its Catcher field in the North Sea.

'A stable oil price above $60 per barrel is likely to be viewed as 'light at the end of the tunnel' by many E&P management teams, shifting the focus from debt obligations and covenants to distributions and growth,' says Edison analyst Sanjeev Bahl.



The higher oil price could also make it easier for Premier to secure partners to help finance the development of its substantial 2017 oil discovery offshore Mexico.

Other oil explorers may benefit after a long period when so-called farm-out deals were very difficult to achieve for all but the most attractive projects, as the market has been flooded with assets being sold off by the majors.

Eco (Atlantic) Oil & Gas (ECO:AIM) is among the small cap exploration plays which could be in focus this year, thanks to its position in one of the world's hottest exploration postcodes.

Its shares have nearly doubled

in price since September 2017 after ExxonMobil announced a sixth big discovery on the Stabroek block, Guyana. This asset neighbours Eco's 40%-owned Orinduik block.

French energy giant Total is currently working through seismic data with an option to acquire a 25% stake in Orinduik for $13.5m with a deadline pitched around the end of the first quarter of 2018.

OIL SERVICES

IN THEORY THE companies which provide equipment, materials and services to the oil and gas sector should benefit from the buoyant outlook for the industry.

However, analysts at professional services firm EY reckon discipline on costs and spending will remain in place this year. Morgan Stanley agrees, commenting: 'With the oil price collapse still fresh in the mind of managements, and the looming threat of "peak oil demand", we expect the focus on cost and capital discipline to stay intense.'

This is likely to result in continuing pricing pressure

Shell
Malikai Tension Leg Platform

for oil service companies. EY's global oil and gas leader Adi Karev comments: 'The modest increases in capital spending planned for this year will bring little relief for oilfield services companies, fuelling yet more consolidation activity in the stressed sector.'

Having completed the £2.2bn merger with Amec Foster Wheeler in October 2017, **Wood Group (WG.)** will be trying to integrate the acquired business in 2018. Management are eyeing synergies of at least £110m a year.

Hunting (HTG) is one sector constituent which analysts are excited about for this year. Both Morgan Stanley and Macquarie have switched from a negative to a positive stance on the shares based on strong US demand for Hunting's perforating gun, a device use to penetrate oil and gas wells in preparation for production.

Macquarie thinks Hunting will continue to push through price increases for its H1 gun which it says is taking market share through 'superior operational efficiency'.

However, trading at 632p and up nearly 40% in the last three months, Hunting's shares may already be pricing in an improved backdrop.

FUNDS

THE FORTUNES OF the oil and gas industry are not only relevant for investors with a direct interest in the sector.

According to AJ Bell's *Dividend Dashboard* report, BP and Shell account for more than a fifth of the FTSE 100's forecast dividends for 2018 and many UK equity income funds will have these

Hunting
Global proprietary threading

companies in their portfolio.

Funds with BP and Shell in their top holdings include **Invesco Perpetual High Income (GB00BJ04HQ93)** and **River & Mercantile UK Equity Income (GB00B3KQG447)**.

Funds specialising in the energy sector may see more pronounced uplift from resurgence in the oil sector, such as **Guinness Global Energy (IE00B6XV0016)**. 'Just under half of its assets are in US-listed stocks with 15% in Canada and 11% in the UK,' says Russ Mould, investment director at investment platform provider AJ Bell.

'The largest individual stock positions include US oil equipment and services giants Halliburton and Schlumberger, US oil producers Hess and Devon Energy and Canadian oil sands specialist Suncor.'

Many passive funds will also be exposed to the oil price, such as exchange-traded fund **ETFS US Energy Infrastructure ETF (MLPX)**. 'Listed on the London Stock Exchange, this fund is designed to replicate the performance of a basket of 24 American energy pipeline, storage and logistics firms, a lot of whose share prices had fallen hard alongside the actual oil price,' says Mould. (TS)

Why many funds are more expensive than you thought

New disclosure rules reveal the shocking extent to which managers hide charges

Some of the most popular funds in the UK are charging fees that are up to 85% more than investors previously thought, analysis shows.

The surprising figures have been revealed following new regulations that require fund managers to be more transparent about the fees they charge to investors.

WHAT ARE THE EXTRA FEES?

Under the Markets in Financial Instruments Directive (MiFID II), which came into force on 3 January 2018, fund groups must not only disclose their ongoing charges figure (OCF), but also their transaction costs.

The OCF includes custody and administration fees, whereas transaction costs are those incurred by the fund for buying and selling securities.

Data from investment consultancy The Lang Cat shows these transaction costs add, on average, an extra 0.2% on to the costs of the 20 most popular funds. The average OCF is 0.77%, but transaction fees increase the total cost of ownership to an average 0.97%.

The research shows **Vanguard LifeStrategy 60% Equity Fund (GB00B3TYHH97)** has an OCF of just 0.22%, but transaction costs of 0.11% make the actual cost of ownership rise to 0.33%.

Janus Henderson UK Absolute Return (GB00B5KKCX12), which has an OCF of 1.06%, has particularly high transaction costs of 0.79%, making the total cost of ownership a huge 1.85%. The fund also has a performance fee.

Some funds disclose their transaction costs as zero, although it's possible these are being met from company profits.

WHAT DOES IT MEAN FOR INVESTORS?

The charges have always been there, but the visibility provided by the new regulation is an eye-opener.

'These fees are something that investors should look at,' says Mike Barrett, consulting director at The Lang Cat.

'The extra visibility allows you to fully understand the total cost of investing. For a lot of funds it will be more than you previously thought, albeit the costs haven't actually gone up.

'It's worth looking at where your money is invested and making sure you're comfortable with it from a cost point of view.'

Active funds are traditionally thought to be more expensive than passive funds, but the data shows this isn't always the case when it comes to transaction fees.

Fundsmith Equity (GB00B41YBW71), an active fund, has a transaction costs figure of just 0.05% – much lower than the passive Vanguard LifeStrategy range. This is because Fundsmith Equity invests in a small number of stocks and uses a 'buy and hold' strategy rather than trading frequently.

LIFTING THE LID ON THE TRUE COSTS OF 20 POPULAR FUNDS

FUND	ONGOING CHARGES FIGURE (OCF)	TRANSACTION COSTS	ACTUAL COST OF OWNERSHIP	% DIFFERENCE (BETWEEN OCF AND NEW ACTUAL COST FIGURES)
Fundsmith Equity	1.05%	0.05%	1.10%	4.76%
Woodford Equity Inc	0.75%	0.28%	1.03%	37.33%
Blackrock Cash	0.32%	0.00%	0.32%	0.00%
Invesco Perpetual Global Target Returns	0.88%	0.35%	1.23%	39.77%
Vanguard LifeStrategy 60% Equity	0.22%	0.11%	0.33%	50.00%
Henderson UK Absolute Return	1.06%	0.79%	1.85%	74.53%
Lindsell Train UK Equity	0.72%	0.00%	0.72%	0.00%
JPM Global Macro Opps	0.78%	0.66%	1.44%	84.62%
Lindsell Train Global Equity	0.75%	0.01%	0.76%	1.33%
Old Mutual Global Equity Absolute Return	0.85%	0.40%	1.25%	47.06%
Vanguard LifeStrategy 40% Equity	0.22%	0.12%	0.34%	54.55%
Old Mutual Cirilium Balanced	1.62%	0.00%	1.62%	0.00%
FP Balanced Portfolio Overlay	0.67%	0.00%	0.67%	0.00%
Fidelity Moneybuilder Income	0.56%	0.18%	0.74%	32.14%
Investec UK Alpha	0.83%	0.64%	1.47%	77.11%
Aviva Investers Multi-Strategy Target Income	0.85%	0.25%	1.10%	29.41%
Troy Trojan Income	1.02%	0.00%	1.02%	0.00%
Old Mutual Cirilium Moderate	1.66%	0.00%	1.66%	0.00%
L&G Global Inflation Linked Bond Index	0.27%	0.22%	0.49%	81.48%
Dimensional Global Short Dated Bond Fund	0.29%	0.00%	0.29%	0.00%
AVERAGE	**0.77%**	**0.20%**	**0.97%**	**30.70%**

Source: The Lang Cat, FE Analytics. 18/01/2018. Main unit for each fund has been used. Other units/share classes might have different costs.

HOW CAN I COMPARE THE CHARGES?

Investors should be careful about comparing transaction costs, says Nick Blake, head of personal investing at Vanguard.

He argues that it is only meaningful to compare the transaction costs of similar funds – for example two FTSE 100 trackers rather than a FTSE 100 tracker and an emerging markets equity fund.

Even then, it is the total cost of ownership which is important.

'The intention of the regulation is to bring transparency and better decision-making. But instead of comparing apples with apples, people are trying to compare apples with motor bikes, i.e. funds with completely different investment objectives and holdings,' says Blake.

BEWARE DISCLOSURE VARIATION

MiFID II didn't specify how fund managers should calculate transaction fees. This means there could be considerable variation in the information being provided.

Alan Miller, founding partner and chief investment officer of SCM Direct, says: 'We have been surprised by some of the previously hidden transaction cost numbers we have discovered in our research – both in terms of under-estimating and over-estimating.

'We are aware of one provider that found that the firm it had employed to calculate these costs had over-inflated the transaction costs for one of its funds by 90%.

'This and other findings lead us to believe there is little consistency or robustness in the methodology being used by firms, even when they are aiming to fulfil the legal requirement for 100% transparency on investment costs.'

VANGUARD SAYS YOU SHOULD ONLY COMPARE TRANSACTION COSTS OF SIMILAR FUNDS – SUCH AS TWO FTSE 100 TRACKERS, NOT A FTSE 100 TRACKER AND AN EMERGING MARKETS EQUITY FUND

HARD TO PREDICT TRANSACTION FEES

Another difficulty is that transaction fees can fluctuate over time. Jose Garcia-Zarate, associate director of passive strategies research at Morningstar, says because the fees depend on how often the fund manager trades, they cannot be fully known in advance.

'Fund managers may also carry out activities that help to reduce those costs. Hence why they're so difficult to estimate ex-ante. For example, funds may engage in securities lending. This practice may generate important profits, which can be partly returned to the fund, and thus partly offset other costs that have been incurred,' he explains.

Garcia-Zarate adds that because transaction costs are variable, investors need to tread carefully before making a firm judgement.

"WHAT I WOULD NOT WANT TO SEE IS A GOOD FUND MANAGER TRADING LESS – AND POSSIBLY NEGATIVELY IMPACTING THEIR PERFORMANCE – SIMPLY TO KEEP COSTS LOW"

HOW IMPORTANT ARE FEES?

Over time fees can eat into returns and erode performance. But in some instances high fees can be justified – namely, if the fund is outperforming its peers. Fund performance is always shown net of costs.

Darius McDermott, managing director of Chelsea Financial Services, comments: 'There is a real fixation on costs above all other things at the moment, whereas to me performance after fees is what is really important.

'I am willing to pay a little more for a fund I believe will do better over time. What I would not want to see is a good fund manager trading less – and possibly negatively impacting their performance – simply to keep costs low.' (EP)

DISCLOSURE: Editor Daniel Coatsworth has a personal investment in Fundsmith Equity referenced in this article

Record year for investment trusts securing new cash

The sector raised £11.9bn in new money during 2017, considerably ahead of 2016's haul

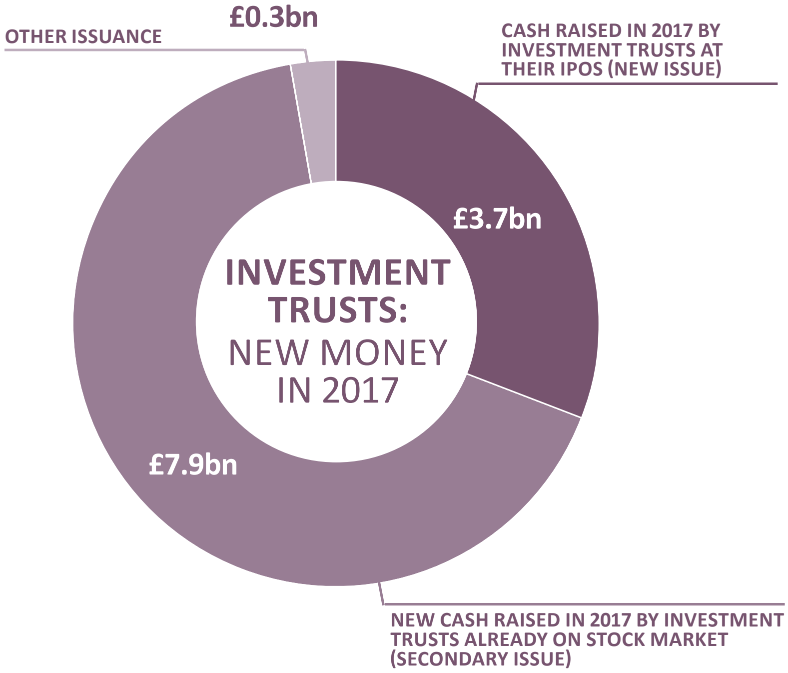
Investment trusts raised a record amount of money in 2017 at £11.9bn, up 75% on the previous year according to research by stockbroker Numis.

The bulk of the money came from existing investment trusts issuing new shares to raise more cash, amounting to just under £8bn. The remainder predominantly came from new investment trusts floating on the stock market as a way of raising money to fund their initial investment portfolio.

Numis believes this trend will continue in 2018 with fundraising being dominated by existing investment trusts seeking new money, referred to as 'secondary issues' in the market.

Property, debt, infrastructure and renewable energy funds dominated secondary issuance in 2017. For example, **Assura (AGR)** raised £409m for property acquisitions and development opportunities; **Tritax Big Box REIT (BBOX)** raised £350m to expand its empire of large warehouses; and **Amedeo Air Four Plus (AA4)** raised £312m to buy more aircraft for leasing to major airlines.

The two biggest secondary fundraisings in 2017 were **HICL Infrastructure (HICL)** which raised circa £530m for new investments; and **CATCo Reinsurance Opportunities (CAT)** which raised approximately £522m.



NOT EASY TO LAUNCH A NEW INVESTMENT TRUST

Speaking to several industry experts, we're told that new investment trusts only stand a chance of raising money by floating on the stock market if they invest in less liquid assets or they cover a niche part of the market.

Launching a mainstream trust that invests in liquid equities may be more of a challenge because there are already so many open-ended funds (unit trusts and Oeics) on the market in this category competing for investors' money, not to mention a large number of existing investment trusts doing the same.

Even specialist trusts aren't guaranteed to get their IPO (initial public offering) away. Just look at Aviva Investors Secure Income REIT, Tri-Pillar Infastructure Fund and Greensphere Capital – all of whom delayed their stock market listings in late 2017 for various reasons including insufficient demand and giving potential investors more time to undertake due diligence.

'Although the number of (investment trust) IPOs picked up in 2017, many of the issues failed to reach their fund raising targets,' says Numis.

'It remains far tougher to launch a new investment trust than to raise secondary capital for existing funds. This is because there are a relatively limited number of institutions that are able to cornerstone the launch of a new issue.

'The major multi-asset investors appreciate the benefits of the closed-end structure in specialist asset classes. However, they are wary of illiquidity and increasingly want vehicles to be at least £200m. This is often a "tall order" at IPO stage, particularly for funds investing in asset classes that are unfamiliar to most investors.'

NEW TRUSTS MUST BE HIGHLY SKILLED AND DIFFERENT

Equity-focused investment trusts need to show specific expertise and a differentiated offering in order to capture investors' attention when trying to raise money to float on the stock market.

Of those floating in 2017 with an equity investment mandate, most were focused on smaller companies.

Examples include **Scotgems (SGEM)** which is targeting small caps in emerging markets; and **Aberforth Split Level Income Trust (ASIT)** which is targeting small UK-quoted companies to provide shareholders with a high level of income and potentially capital growth. The teams behind both of these investment trusts have a great track record.

Next up will be asset manager JPMorgan which is seeking to float a new investment trust on 2 March called **JPMorgan Multi-Asset Trust**. This will be managed by a highly experienced team in the multi-asset space. It is targeting 6% total return per year including a 4% dividend yield; and it is hoping to raise in excess of £150m at float.

"ALTHOUGH THE NUMBER OF INVESTMENT TRUST IPOs PICKED UP IN 2017, MANY OF THE ISSUES FAILED TO REACH THEIR FUND RAISING TARGETS"

DANGLING THE DIVIDEND CARROT

Numis says the sweet spot for investment trusts trying to raise money via an IPO is to offer a yield of 5% or more, with a total return of 7% to 10% (being the dividend yield plus rise in the share price). It also says the ideal asset class should be one that offers some degree of inflation or interest rate protection.

'IPOs are helped by the support of a management team with a strong track record, a seed portfolio, and a mandate that is differentiated from existing listed funds,' says Numis. 'Assets where the yield has some degree of government backing are also popular; for example, **Triple Point Social Housing REIT (SOHO)** as well as long-dated income such as long-lease property.'

European property vehicles could be a winner in 2018, according to Numis which gives the example of **Aberdeen Standard European Logistics Income (ASLI)** which recently joined the stock market. (DC)

FUTURE PRESENT: INVESTING IN TOMORROW, TODAY

It has become something of a cliché, but new technologies are increasingly prompting change in a very wide range of industries globally. In some cases, technological advances are creating entire new industries that would not have been feasible 30 years ago.

These developments are interesting from an investment perspective. In the current uncertain environment, 'future-proofing' also involves looking carefully at emerging long-term trends. "The risk on appetite also means people are diversifying their portfolio to include thematic investing, where returns can be captured through exposure to assets linked to long-term structural trends" says Howie Li, CEO, Canvas, ETF Securities.

So what are the key megatrends of 2018?

ROBOTICS AND AUTOMATION

Technological advancements are enabling robots to perform increasingly sophisticated knowledge-based work, thereby widening their application. As human labour costs increase and production costs for robots fall, it is hardly surprising that automated systems are rapidly transforming a wide range of industries. In fact, the number of industrial robots deployed worldwide is expected to increase to around 2.6 million units by 2019; around a million units more than in the record-breaking year of 2015[1]

Advances in artificial intelligence (AI) and sensor development, for example, mean that robots are acquiring a broader range of skills, diagnosing diseases; driving cars; and understanding natural language. Seeking to improve productivity – reducing production costs and, in turn, improving profitability – businesses are increasingly adopting robotics and automation systems and are investing heavily in new technologies. This augurs well for innovative companies engaged in this evolving megatrend.

CYBER SECURITY

With the number of connected devices expected to exceed 200 billion by 2020[2], the world is becoming ever more inter-connected electronically. As governments, corporations and individuals collect, process and store vast amounts of confidential information on integrated cloud systems, cyber security has never been more important in order to protect data from theft and fraud.

To safeguard against sophisticated hackers, corporations and governments are expected to increase their investment in cybersecurity systems to more than $101.6 billion by 2020[3]. This not only helps to protect the financial interests of themselves and their clients, but importantly mitigates the risk of reputational damage associated with data security breaches.

BATTERY TECHNOLOGY

The proliferation of portable devices globally, the continued developments in sustainable energy as well as increasing demand for electric vehicles mean demand for batteries continues to gather pace. Additionally, dwindling fossil fuel reserves means there

[1] International Federation of Robotics, China International Summit of Robots, July 2016
[2] Business Insider Intelligence, Cyber Security Report, Apr 2016
[3] International Data Corporation, Worldwide Semi-annual Security Spending Guide, 2016

is an increasing focus on grid storage; in particular storing power generated from renewable sources. This rising demand is supporting companies engaged in battery research and production, as well as miners of lithium; a raw material used in the manufacture of the most efficient batteries. Demand for the metal is forecast to grow between 15% and 20% annually over the next decade[4] as battery production accelerates further.

ECOMMERCE LOGISTICS

Annual online retail sales growth now exceeds 10% in most markets, even in developed eCommerce markets such as the US, UK and Germany[5]. Additionally, increasing internet penetration in emerging regions with high populations should further fuel the global eCommerce market. As eCommerce companies expand their range of offerings, sophisticated logistics solutions will become even more important for retailers. At this moment in time, the logistics sector is playing catch-up in response to the strong growth in eCommerce that we have already witnessed.

PHARMACEUTICAL BREAKTHROUGHS

Given their limited revenue potential, major global pharmaceutical firms have historically had limited interest in developing treatments for rare diseases. However, incentives including tax credits, grants, increased intellectual property protection and reduced timelines for clinical development mean more companies are deploying research and development spend into this area. In fact, revenues from such drugs, commonly known as "orphan drugs", are expected to increase 11.0% annually between 2017 and 2022[6], providing investors with an opportunity to gain exposure to this new segment within the established pharmaceutical industry.

WHAT ARE THE CHALLENGES WITH INVESTING IN EMERGING MEGATRENDS?

Defining which companies are true leaders in these megatrends can be difficult given the complex supply chains that mark out each sector and the fact that these are relatively new and unique industries.

Some companies may derive some or a substantial portion of its revenues from business segments that may be unrelated to each specific megatrend. Consequently, such companies shall also be subject to risks that are associated with other business segments.

To be able to identify and invest in these key businesses requires expert insight and analysis to fully understand the key drivers of each industry. This is essential when making investment decisions but it is particularly the case for a sector that is unlike any other in the investment sphere.

For more information, please visit
www.etfsecurities.com/futurepresent

[4] Zion Research, Lithium-Ion Battery Market, Dec 2017
[5] TI Insights, Global eCommerce Logistics Report, Feb 2017
[6] EvaluatePharma®, Orphan Drug Report 2017, Feb 2017

10 STOCKS INVESTORS ARE BETTING TO FALL IN VALUE

WHICH ARE THE MOST 'SHORTED' STOCKS AND WHY IS THIS RELEVANT?

The collapse of public sector contractor **Carillion (CLLN)** earlier in January 2018 made millions in profit for a handful of investment sceptics.

Hedge funds and other sophisticated investors have coined it in through a process called short selling, or shorting. It involves placing a bet that a share price will fall. If the shares do decline in value, then the person shorting the stock makes a profit.

Hedge funds Bodenholm Capital and Coltrane Asset Management are believed to have made around £4m each from shorting Carillion's stock since the company's profit warning in July 2017, according to *Reuters*.

Carillion had been one of the UK's most shorted stocks for the past 18 months thanks to what short sellers believed were under-appreciated financial weaknesses in the business.

Given the people shorting the stock have since been proved correct, does that mean all the other popular shorting targets are also going to see their share price fall? People shorting stocks aren't always correct, but it is worth looking at the most popular targets to see why they may be on the list.

WHO IS ON THE LIST?

Struggling department store group **Debenhams (DEB)**, grocery deliveries firm **Ocado (OCDO)** and doorstep lender **Provident Financial (PFG)** all

TOP 10 SHORTED STOCKS

COMPANY	% SHORT	NUMBER OF FUNDS SHORT
Debenhams (DEB)	14.9%	9
Carillion (CLLN)	14.0%	12
Premier Oil (PMO)	13.9%	5
Ocado (OCDO)	13.5%	10
Provident Financial (PFG)	11.7%	12
Telit Communications (TCM:AIM)	10.8%	4
IQE (IQE:AIM)	10.7%	5
Pets at Home (PETS)	10.6%	7
Sainsbury (SBRY)	10.5%	10
Aggreko (AGK)	10.3%	8

Source: *Shares*, FCA, Castellain Capital as at 19 January 2018 remain high on the list of the UK's most shorted stocks, according to Short Tracker, the website run by Castellain Capital.

Debenhams has issued numerous profit warnings in recent years as its outdated department store model is left struggling amid a structural shift to shopping online.

Ocado bears suggest the stock doesn't deserve a premium valuation given its slow progress in finding lots of international partners to help drive the business forward.

Many analysts believe doorstep lender Provident Financial may have to raise new cash in order to pay any potential mis-selling fines and penalties, given it is being probed by the Financial Conduct Authority, a regulator. The business is also struggling with its turnaround plans.

Other companies on the list of most shorted stocks include retailer **Pets at Home (PETS)** which has struggled from weak sales, margin pressure and rising costs. Carillion still shows on the list because its shares have yet to be delisted from the stock market, albeit they are currently suspended and worthless.

FOUL SMELL & BAD TASTE

Short selling has frequently courted controversy. The idea of profiting from the failure of a business when shareholders, lenders, and in Carillion's case, probably taxpayers, lose out financially leaves many ordinary people and investors feeling queasy. You also have to think that Carillion's collapse could mean thousands of jobs get axed.

Short selling is sometimes criticised by corporates who feel they are being picked upon unfairly by speculators hoping to benefit from declines in their share price, according to Simon McGarry, a senior equity analyst at Canaccord Genuity Wealth Management.

Some critics have called for the practice to be stamped out completely.

'But if short selling wasn't allowed, traders with negative views of certain stocks would only be able to avoid them,' counters McGarry. 'Short selling allows hedge funds and other sophisticated market participants to generate returns based on their negative views of a stock,' he says.

Put it another way, the emergence of short sellers in a stock puts a shareholder's positive view under scrutiny. That should be a catalyst to revisit the original assessment, an extra test that may be useful in portfolio quality control.

> CARILLION STILL SHOWS ON THE LIST BECAUSE ITS SHARES HAVE YET TO BE DELISTED FROM THE STOCK MARKET, ALBEIT THEY ARE CURRENTLY SUSPENDED AND WORTHLESS.

RISKY BUSINESS

Even if you accept the supporting arguments for short selling, there remain very good reasons for ordinary investors to stay away from shorting.

Chief among them is the high level of risk inherent in the practice. When an investors 'goes long', betting on the upside of a stock, your maximum possible loss is 100% of your capital invested. That can happen from time to time, as we have seen with Carillion, but it remains relatively rare for a company to go completely bankrupt.

With shorting, investors risk far more than the amount they invest, and in mathematical terms, losses on a shorting trade are potentially infinite. That's because there is no theoretical cap on how high a share price can rise, so seeing a short trade go against you is open-ended.

Remember that the more a share price rises, the more money someone shorting the stock loses.

Given the risk, and the imbalance of research resources available to hedge funds versus the non-professionals, shorting is probably best avoided. (SF)

WHAT IS A SHORT SQUEEZE?

A short squeeze is a situation where a sudden spike upwards in a share price triggers a rush of buying activity among short sellers.

Short sellers must buy stock to close out their short positions and cut their losses, which provides further fuel for the rising share price.

In turn that can compel even more short sellers to cover their positions, escalating the rising share price tide.

Can you make money from investing in outsourcing companies?

The track record of investment returns has been patchy for much of the sector

Outsourcing companies have been thrust into the spotlight by the demise of **Carillion (CLLN)**. The high profile corporate failure raises the question of whether this type of business can ever be a good investment.

On the face of it, winning large, long-term contracts from a government should be great for revenue visibility.

However, these companies operate on thin margins as strong competition has helped drive down prices and with governments often assigning work to the lowest bidder.

WEAK PROFITABILITY

This weak profitability means returns have been heavily impacted by unplanned changes to contracts, operational issues and rising labour costs and the sector has been beset by profit warnings.

As the accompanying table shows, the sector has – on a broad basis – been a patchy investment on a short, mid and long-term basis. Yes, there have been the odd exception, but overall the sector has sorely disappointed.

The collapse of Carillion and the unexpectedly strong showing for a Labour Party which is more negative on the involvement of private firms in public projects in the June 2017 General Election has arguably increased the risk profile of the space even further.

In light of Carillion's collapse, we now look at three of the biggest outsourcing companies on the UK stock market to give you an idea of what they do, how much money they make and their financial strength.

SERCO SHARES HEAD SOUTH

Serco (SRP) is a provider of public services with limited direct exposure to Carillion's contracts. Of its £3bn turnover, around £750m comes from central government contracts such as running immigration detention centres and managing the Atomic Weapons Establishment.

SUPPORT SERVICES AND CONSTRUCTION SERVICES COMPANIES – HOW HAVE THEY PERFORMED ON THE STOCK MARKET?

COMPANY	SHARE PRICE CHANGE (%)			
	1 Year	3 Years	5 Years	10 Years
Babcock International	-21.4	-25.6	-14.9	60.3
Morgan Sindall	66.7	102.0	151.0	39.0
G4S	17.6	2.3	4.0	32.8
Kier	-19.8	-13.4	0.2	3.9
Mitie	-6.8	-29.9	-29.2	-23.4
Balfour Beatty	8.7	42.3	0.3	-23.6
Capita	-24.6	-63.6	-51.0	-40.2
Serco	-32.7	-24.7	-78.2	-70.9
Interserve	-65.5	-76.6	-72.7	-73.4

Source: Shares, SharePad. Data to 17 Jan 2018

A Serco court escorting van

The company has endured a difficult 12 months and its share price has fallen c35% to 95p in that period.

Serco purchased some of Carillion's healthcare assets last year which could potentially add £1bn to the company's order book.

Analysts at broker Liberum said at the time of the acquisition that given Serco's existing healthcare business brings in between £200m and £250m of revenue a year, the Carillion contracts could make Serco the largest healthcare facilities management provider in the UK.

Serco may be able to acquire the rest of the stricken company's healthcare assets which are valued at £150m in total but given Carillion is in liquidation this is by no means a given.

Serco's margins typically stand between 2% to 3%. Its ambition to lift them to between 5% and 6% may be achieved by the expiration of onerous provisions on existing contracts although analysts at broker Peel Hunt are sceptical.

Peel Hunt forecasts margins of 2.7% for 2018 and between 3% and 3.5% for 2019. It says that 'while organic growth will be the priority, acquisitions may offer a lower-risk approach to growing and scaling revenues'.

The company arguably has limited scope for further acquisitions until its free cash flow generation improves.

Serco trades on 32.4 times the 3p earnings per share forecast by Peel Hunt for 2018. It does not currently pay a dividend.

NOT SO MIGHTY MITIE

Like Serco, **Mitie (MTO)** has government contracts including the running of immigration detention centres and managing juvenile centres. It has no direct exposure to Carillion but may be looking to pick up some of the contracts the company previously held.

The company's recent failure to sell its property division was a 'slight disappointment' to broker Liberum but also 'no great surprise'. It adds 'The property services market is challenging and does not fit with the rest of group'.

Mitie has slightly better margins than Serco, achieving 3.8% for 2017. Like others in the sector, the company has been subject to much scrutiny by the market. Several investigations have been made into its accounts by financial regulators.

Mitie trades on 13.5 times 2018's 14.3p of forecast earnings and has a 2.1% prospective dividend yield using Peel Hunt's forecasts.

Management is keen to reduce the amount of debt in the company and has targeted £40m of cost savings between 2018 and 2020. Liberum forecasts £138m net debt position at the end of 2018.

CAPITA CHECK UP

Capita (CPI) has the largest percentage of government contracts to overall revenue of the companies mentioned, half of its £4.9bn revenue.

Like Mitie there has been a drastic reduction in its market value. Its share price has nearly halved since last summer after its turnaround efforts weren't going quite as expected.

The company employs a vast 70,000 workers in the UK and is involved in work ranging from administering the teachers' pension scheme to providing technical services to the NHS.

Its margins are better than others in the sector, reaching around 11% for 2017. This reflects a different business mix with a greater focus on providing higher return IT services.

The balance sheet is not too stretched following the recent disposal of Capita Asset Services at a net debt to earnings ratio of around two times.

Capita trades on 8.2 times 2018's 44.6p of earnings while yielding 8.6% using Peel Hunt's forecasts. The lofty yield implies the market thinks the dividend will be cut. (DS)

Overlooked retailer Quiz has the answers

Winning fast fashion womenswear brand is one for growth portfolios

Fast fashion womenswear brand **Quiz (QUIZ:AIM)** proved a Christmas retail winner and is a growth stock that should excite small cap investors. Pocket the value-for-money occasion wear-to-dressy casual wear specialist at 150p, where there is 46% upside towards Panmure Gordon's 219p price target.

Encouragingly, this fast fashion retailer's positive trading momentum continued over the festive period. Overall revenue powered 31.9% higher over the seven weeks to 6 January. While rival, tired-looking brands are waning, awareness of the Quiz brand is growing.

Sales growth is being generated across this omni-channel business; online and international showed especially strong growth over the trading period, up 119% and 51.1% respectively. Like-for-like sales are positive across Quiz's expanding store estate and concessions are performing robustly.

Gross margin was also in line with expectations following 'strong full price sales in the lead-up to Christmas', assured Quiz, reassuring given a blizzard of discounts across the clothing sector.

Panmure Gordon writes: 'With a scalable supply chain and capacity to more than double revenues, we believe the business is well placed to deliver attractive levels of top line and earnings growth over a sustained period.'

The broker forecasts a surge in pre-tax profit to £10.3m (2017: £8.2m) for the year to March 2018 and a maiden 1p dividend, ahead of £12.6m profit and a 2p payout next year.

SHARES SAYS: ↗

A downwards drift at the female fashion brand presents a strong buying opportunity for growth investors. (JC)

BROKER SAYS: 1 0 0

Air Partner achieves £6.4m profit one year earlier than expected

IT LOOKS LIKE analysts will be forced to upgrade their earnings forecasts for **Air Partner (AIR)** after the company revealed an impressive trading update on 18 January.

It said underlying pre-tax profit for the year to 31 January 2018 would be at least £6.4m. That compares with current market forecasts of £5.9m and is even better than the £6.35m pre-tax profit forecast for the year to 31 January 2019.

A strong second half performance in the current financial year has been driven by good trading in Air Partner's broking division, especially in freight and the US.

Air Partner is optimistic about its consulting division, flagging an 'encouraging' forward pipeline.

The company charters large aircraft to transport people or cargo and facilitates private jets for wealthy individuals.

It also provides consulting and training services, including regulation and compliance for the aviation sector.

Trading director Clive Chalmers says events such as the FIFA World Cup in Russia should boost trading in its commercial jet broking business this calendar year.

According to Chalmers, there has already been increased demand for charter services ahead of the sporting competition and is expected to increase further. (LMJ)

Financial planning tips for the Sandwich Generation

How to manage the strain of providing for children and ageing parents

If you're one of the Sandwich Generation who provides for your children and your elderly parents then taking care of your own finances might seem like an impossible task.

There are lots of steps you can take to ensure you maximise your chances of a financially secure future.

GET YOUR PRIORITIES STRAIGHT

Taking care of your children's and parents' finances can be a real strain.

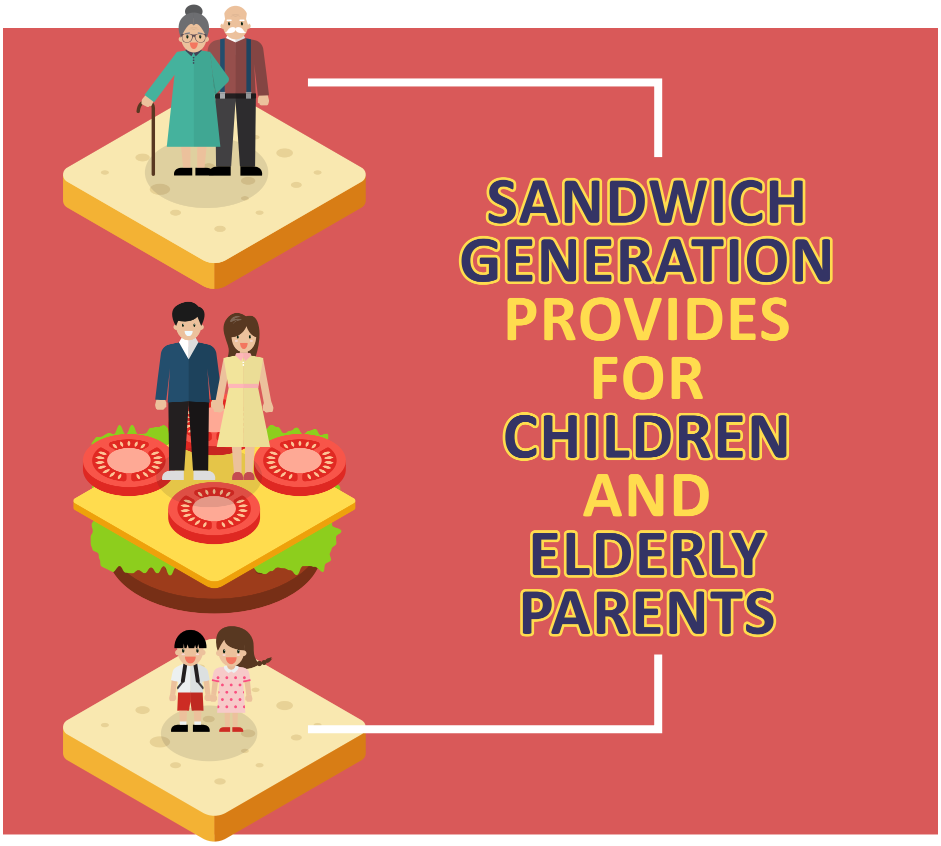
The cost of university education has soared and children are increasingly reliant on their parents to help them get a foot on the property ladder. On top of this, rising longevity means the elderly face huge care costs which they may not be able to meet on their own.

It's no surprise that people in the Sandwich Generation aren't able to fully focus on their own personal finances.

Patrick Connolly, head of communications at financial planning firm Chase de Vere, says financially-stretched people have to make compromises between supporting their loved ones and managing their own finances.

The situation is more complicated when it comes to elderly parents, especially if they need payments to maintain their quality of life.

Charlie Musson, spokesperson for investment platform AJ Bell Youinvest, says: 'Choosing between your children and parents for financial support is not a position anyone wants to be put in. It will require a fine balancing act and will probably boil down to whoever you think has the greatest need.'



START PLANNING EARLY

It's better to start planning your finances as soon as possible than wait until issues arise.

This means not taking on unnecessary debts, building cash savings and paying sufficient amounts into a pension scheme.

If you've already started sorting out your own finances when your children are born, you'll be in a much better position to help your children, and your parents, if the need arises.

'The key when saving for children is to start as early as possible,' says Musson. 'This may be easier said than done when your outgoings have just ramped up significantly following the birth of a child, but saving little and often can have a big impact over the long term.'

If you start saving £100 a month immediately when a child is born and invest it in a Stocks & Shares Junior ISA, it could be worth just over £35,000 on their 18th birthday, assuming 5% annual investment growth. It's much less daunting than trying to find a huge lump sum when they reach adulthood.

'This will give them a great springboard in life and can help them find their financial independence as quickly as possible, which will be vital for the Sandwich Generation who may then have to provide financial support to their parents too,' adds Musson.

Careful planning is also essential to helping financially dependent parents. If your parents have no cash but are living in a mortgage-free property, equity release could be an option. If your parents have no assets at all, they might be entitled to state benefits.

MAKE SACRIFICES

You can ensure you don't neglect your own financial security by making some small sacrifices, such as reducing how much you spend on eating out and holidays. This could help to free up some spare cash to squirrel away for when it is needed.

Over 20 years, small cutbacks could make a huge positive impact to your pension.

> **'SAVING LITTLE AND OFTEN CAN HAVE A BIG IMPACT OVER THE LONG TERM'**

Liz Alley, head of financial planning operations at Brewin Dolphin, says cutting out a £2.50 coffee every day and redirecting that cash into your savings could add almost £28,000 to your pension over the long term. That assumes investment growth of 4% and taking into account basic rate tax relief of 20%.

'It may seem like there is a long way still to go, but 45 to 54 year-olds are approaching the final leg of their journey to retirement. With only 180 monthly paydays left (for a 50 year-old planning to retire at age 65) there is no margin for complacency,' she warns.

An alternative to a pension is an ISA. Although ISAs don't provide any upfront tax relief, money can be withdrawn tax-free and whenever it is needed, which is useful for short-term expenditures.

Most investment platforms have a regular investment service which lets you invest small amounts of money each month into an ISA or even a SIPP (self-invested personal pension).

CAN'T I JUST RELY ON MY INHERITANCE?

Relying on an inheritance, such as the money you'd get from selling your parents' house when they die, to secure a comfortable financial future isn't a sound financial planning strategy.

Thanks to increasing longevity, your elderly parents might need their retirement funds and assets to last more than 30 years. If they need to pay for care as well, the size of their estate on death could be reduced dramatically.

You also have to consider that many parents may not even have significant wealth in the first place. (EP)

Act fast to boost your Lifetime ISA pot by thousands

You've only got until 5 April this year to take advantage of a generous initiative

Wannabe first-time house buyers and savers craving a more flexible retirement savings option were given a boost in April 2017 when the Lifetime ISA was launched.

The product, which to-date has only been adopted by a handful of providers including AJ Bell, is available to anyone aged 18-39 and allows you to invest in a range of stocks, funds and bonds in the same way as a Stocks and Shares ISA.

It also comes with a significant extra benefit. While the amount you can save each year is capped at £4,000 (compared to £20,000 for a normal ISA) you get an automatic 25% bonus on your savings, worth up to £1,000.

You can continue paying in and receiving the 25% bonus up until your 50th birthday. Furthermore, withdrawals are tax-free if you are using the money to purchase your first home, you are aged 60 or over, or if you become terminally ill.

In essence, the Lifetime ISA is a souped-up version of the Help-to-Buy ISA.

Help-to-Buy ISAs come with a 25% uplift and you can deposit up to £1,200 in the first month you open an account and £200 thereafter – meaning there's less free money on offer than through a Lifetime ISA.

It's worth noting the Help-to-Buy ISA bonus is only paid on completion of the purchase of your first home while the Lifetime ISA bonus will be paid monthly from April 2018 onwards, meaning it can potentially benefit from investment growth. You can withdraw money from your Help-to-Buy ISA at any time, but you won't receive any bonus.

Early withdrawals from a Lifetime ISA for other purposes are also possible, but come with a hefty 25% penalty on the money you take out.

Because of the extra benefits associated with a Lifetime ISA, anyone who has a Help-to-Buy ISA should seriously consider transferring their existing pot.

And there's an extra reason you might want to get your skates on. Savers have until 5 April 2018 to transfer their Help-to-Buy ISA savings into a Lifetime ISA without using up their annual Lifetime ISA allowance.

Someone who transferred £4,400 from their Help-to-Buy ISA – the maximum that could be deposited between its launch in December 2015 and April 2018 – into a Lifetime ISA and also contributed the £4,000 Lifetime ISA limit would receive a 25% bonus on the entire amount, increasing the value of their pot from £8,400 to £10,500.

It's worth noting that only the value in the Help-to-Buy ISA as at 5 April 2017 will be eligible – so anything paid in after that date will count towards the £4,000 limit for this tax year.

Tom Selby,
Senior Analyst, AJ Bell

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