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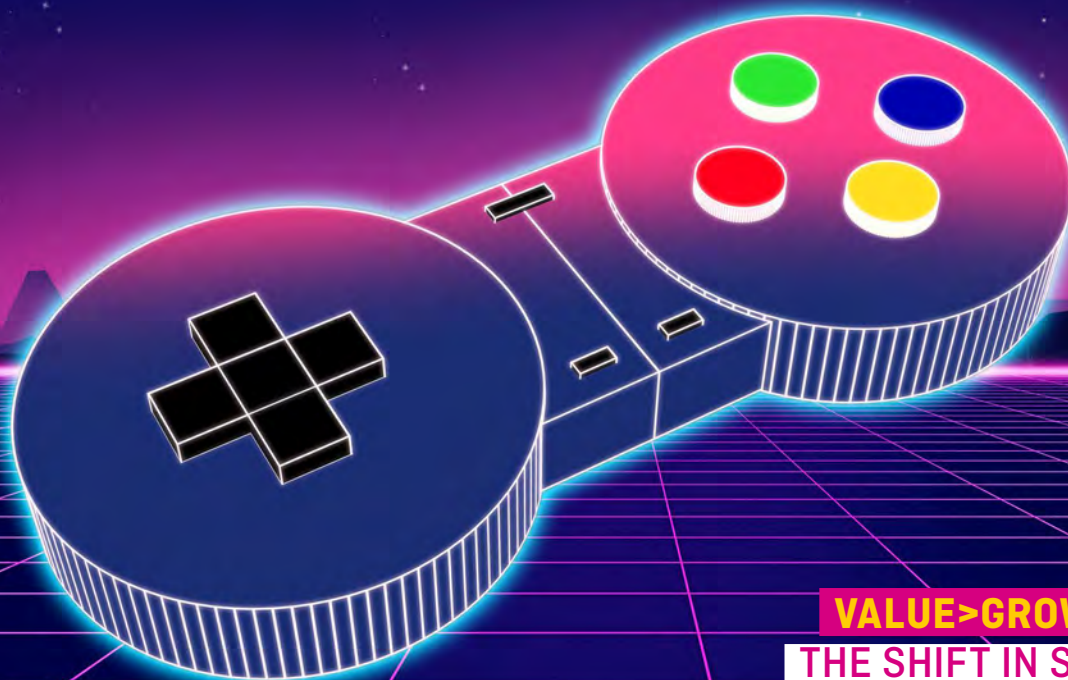
# SHARES

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# Resurgent AIM should be handled with care

Five years since AIM stocks were made eligible for ISAs we look at the performance of this market

**T**he weekend of 4 and 5 August 2018 marked five years since AIM stocks became eligible for inclusion in an ISA.

A look at the performance of the FTSE AIM All-Share in the wake of this change displays the benefits of a move into the relative mainstream for the exchange – London's foremost home for start ups.

As well as an initial surge as new money flowed into AIM companies, this junior market has also outperformed its mid-cap and large-cap counterparts, the FTSE 250 and FTSE 100, on a five-year view too.

Given these are larger, more mature companies which often offer income alongside capital gains the better performance of the AIM index in purely share price terms is perhaps unsurprising.

However the AIM All-Share has also done better than the FTSE Small Cap index which includes the smaller companies on the Main Market.

On top of that, AIM is a market more likely to reward a selective approach. The table shows three of the best performing AIM stocks of recent times. The average share price gain from this trio over the last half decade is close to 1,000%.



out of business.

In some respects, that is the nature of small cap investing, particularly as AIM has significantly more relaxed rules than the Main Market.

There is no minimum free float requirement (Main Market companies must have at least 25% of their shares available to trade in public hands), there is no formal minimum trading record required for AIM companies (compared with three years for a Main Market

business), nor is there typically a requirement for AIM companies to have their documents pre-vetted by the London Stock Exchange of UK Listing Authority ahead of a flotation.

In addition, AIM companies are often not covered by research analysts, making it difficult to get reliable forecasts on future performance.

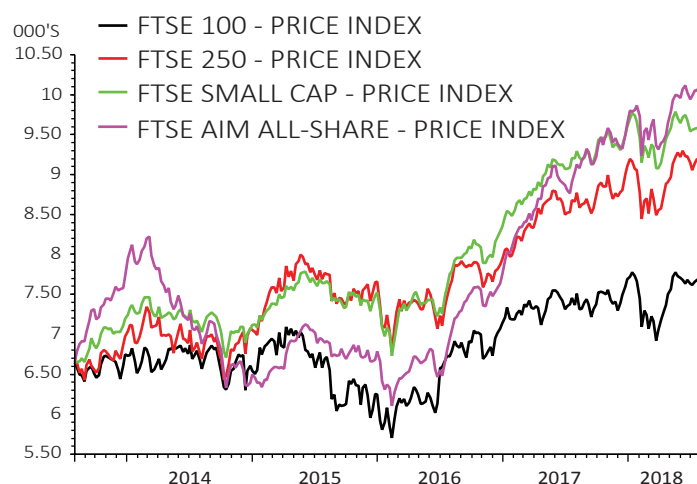
For this reason less experienced investors might feel more comfortable putting their cash to work on AIM with a professional fund manager.

One option could be **Miton UK Micro Cap (MINI)**. Steered by a big advocate of AIM in Gervais Williams alongside his colleague Martin Turner, more than 80% of the portfolio is accounted for by AIM constituents. (TS)

AN ABC OF AIM	
COMPANY	Five-year share price performance
AB Dynamics (ABDP:AIM)	1,020
Burford Capital (BUR:AIM)	1,470
Craneware (CRW:AIM)	464
<b>Average</b>	<b>984.7%</b>

Clearly you can no longer afford to ignore AIM but at the same time it is important you are well aware of the risks when investing in this part of the market.

For every success story there will be several firms which have stagnated, delisted or even worse gone



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# Bank results by numbers

Sector's first half updates were a mixed bag

**D**espite an increase in interest rates and the biggest combined quarterly profit for the banks since 2013, the sector's reporting season got a lukewarm reception from the market.

Against this backdrop, we take a look at key facts and figures which reveal how the big four of **Barclays (BARC)**, **HSBC (HSBA)**, **Lloyds Banking (LLOY)** and **Royal Bank of Scotland (RBS)** are getting on.

**£2bn**

The £2bn in litigation costs and fines drew investors' attention away from a solid underlying performance at Barclays. Another round of PPI costs and £1.4bn settlement with the US Justice Department saw statutory pre-tax profit fall 41% to £922m. Although, once the impact from these costs was stripped out pre-tax profit was actually up 20% to £3.7bn.

**-6%**

HSBC's 'jaws' – measuring income growth against cost increases – came in at -6% as the company continued to pursue a programme of heavy investment. Management have pledged to return to positive jaws by the year end.

**15.1%**

Lloyds common equity tier 1 ratio, a key measure of its ability to withstand financial shocks, increased from 13.9% to 15.1%. This provides a degree of reassurance, helpful given the company's heavy domestic focus and increased exposure to consumer debt could make it particularly vulnerable to Brexit uncertainty.

**2p**

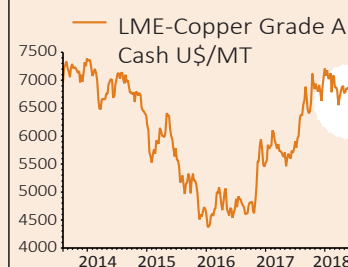
RBS is set to pay its first dividend since the financial crisis of 2p per share, subject to a settlement with the US Department of Justice, although the share overhang created by the Government's 62% stake remains an issue (see page 28).

## Diagnosis in from Dr Copper

THE USE OF copper in everything from electronics to roofing and industrial machinery means it is sometimes described as 'Dr Copper' for its ability to diagnose the health of the global economy.

On this basis the world looks a pretty sickly patient – with the

price of copper in freefall in recent weeks – though consultant Capital Economics chief global economist Andrew Kenningham says: 'even though the price of copper slumped during the global financial crisis, it was not a leading indicator of that downturn'.



# Backers swoop to prop-up Luceco

Analysts left in the dark over near-term profitability

A private equity backer of LED lighting systems supplier **Luceco (LUCE)** is taking action in the market to try and prop-up the fragile share price.

Epic Investments has ploughed in an extra £2m into the stock by buying 4.99m shares at 39.74p per share.

This takes Epic's overall stake to 44,064,372, or 27.4% of the business. Taking a 30% shareholding would force Epic to launch a full blown takeover of the company, under Takeover Panel rules.

Luceco designs and manufactures a range of LED lighting systems, controls and other electrical kit to offices and industrial sites across the globe.

But it is the squeezed retail sector that continues to cause massive alarm for investors, which typically provides about a quarter of all revenue.

The company reported a 20% slump in half year retail sales in a trading update issued on 30 July thanks to 'lacklustre consumer confidence' and a big retail customers destocking.

That led City analysts to slash forecasts for the full year to 31 December 2018.

Numis cut its pre-tax profit estimate from £14m to £6.4m, roughly half the £12.8m that the company chalked-up in 2017. Forecasts for 2019 have also been cut deeply. Investment bank Berenberg went further, withdrawing its own estimates, saying it is 'hard to have any confidence' in the LED light maker in the near-term.

Berenberg analysts also cut their share price target by two-thirds to 45p, from the previous 135p.

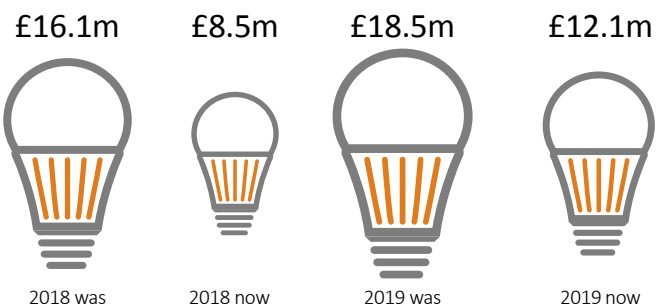
Luceco, which joined the stock market in October 2016 at 130p per share, first got into problems after uncovering stock and foreign currency mis-management in December.

That hammered profit margins and forced the company to issue a profit warning. Several other negative trading bulletins have followed through 2018.

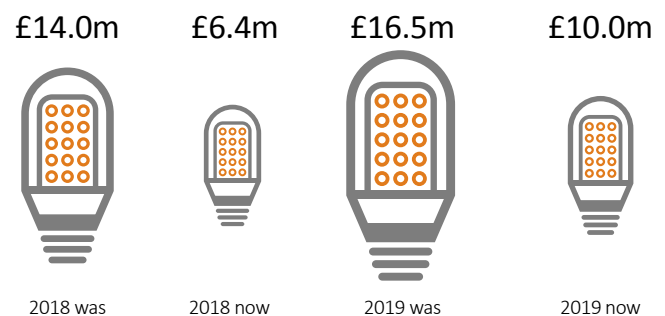
Luceco share had been trading at 232.5p levels

## LUCECO FORECASTS SLASHED

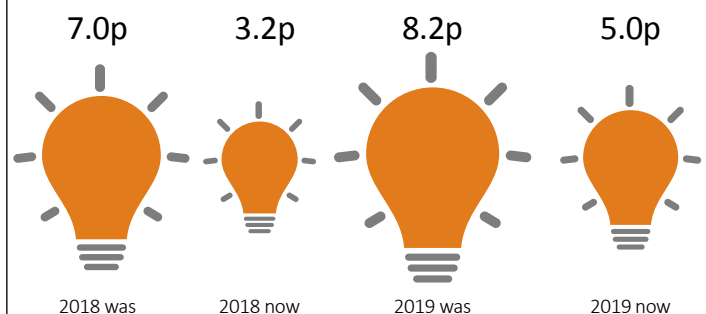
### Operating profit



### Pre-tax profit



### Earnings per share



Source: Numis

before the December warning. Now changing hands at less than a fifth of that level Epic has been provoked into a response.

The private equity backer has been joined in the share buying by chief executive officer John Hornby and Giles Brand, the chairman. The pair bought 1m and 622,919 additional shares respectively, taking their personal stakes in the business to 20.15% and 5.89%. (SF)

# Applegreen's on the road to riches with Welcome Break

Opportunistic Welcome Break takeover set to transform Applegreen's earnings and cash flow

**D**ublin-headquartered petrol forecourt retailer **Applegreen's (APGN:AIM)** shares are currently suspended following the exciting news (2 Aug) it is to acquire a majority holding in UK motorway service operator Welcome Break.

Being financed through €300m of new debt and a minimum €100m equity raise, the deal will turn Applegreen into a leading Motorway Service Area (MSA) operator in the UK as well as Ireland and will yield a step change in its scale and earnings.

Already a major petrol forecourt retailer with operations spanning the Republic of Ireland, UK and US, Applegreen is acquiring a 55% stake in Welcome Break in a reverse takeover under the AIM rules.

One of the three dominant UK MSA owners and operators, Welcome Break generated £723.4m sales and £66.4m of adjusted earnings in the year to January 2018; one interesting strand to Welcome Break's growth has been the installation of electric vehicle superchargers.

Speaking to *Shares*, Applegreen's management explained the deal will help the company achieve critical mass in the large, stable UK market, while deepening Applegreen's exposure to non-fuel food and beverage sales.

Specifically, Welcome Break will add new brand partners including *KFC*, *Starbucks*, *Waitrose*,

*Pret-a-Manger* and *Pizza Express* to existing brand partnerships with *Costa* and *Burger King*.

Welcome Break, whose sites attract roughly 85m motorway customers a year, is a well invested and cash generative infrastructure business which significantly broadens Applegreen's network of MSAs with high entry barriers to competition.

'It reduces our dependence on fuel,' explains CFO Niall Dolan, pointing out Welcome Break is 'the most well-regarded player in the market' and pointing out that 'only 17% of their gross profit comes from fuel sales.'

Guided by CEO Bob Etchingham, Applegreen's management also sees potential to boost the enlarged group's earnings by driving through operational efficiencies and synergies.

## SHARES SAYS: ↗

Applegreen's shares are suspended at 538p until the admission document for the enlarged group is published in September. Once trading resumes, growth and income investors should buy as Welcome Break will boost the earnings potential and cash flows of the bigger, progressive dividend-paying entity. (JC)

## BROKER SAYS: 4 0 0



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# A Majestic summer buying opportunity

The wine specialist offers overseas growth and potential for heatwave trading cheer

**A** prolonged heatwave has provided BBQ weather and the perfect balmy evening conditions for imbibing Prosecco and chardonnay, weather which should prove beneficial for AIM-quoted stalwart **Majestic Wine (WINE:AIM)**.

Buy ahead of half year results (22 Nov), where forecasts could be upgraded given a trading boost from hotter temperatures and positive progress with international sales and profitable customer acquisition.

Watford-headquartered Majestic is a quality wine specialist with over 1m customers in the UK, USA and Australia. The Majestic Retail arm is the UK's largest specialist wine retailer, while its Naked Wines operation sees 'angels' across the UK, US and Australia crowdfund independent winemakers in exchange for preferential prices on exclusive wines.

Majestic also runs on-trade supplier Majestic Commercial and the fine wines merchant Lay & Wheeler.

## GORMLEY UNCORKS PROGRESS

Results for the year ended 2 April (14 Jun) confirmed CEO Rowan Gormley's transformation programme is delivering results, revealing 63% growth in adjusted pre-tax profit

## MAJESTIC WINE BUY

(WINE: AIM) 433.5p

Stop loss: 346.8p

Market value: £309m

to £17.2m and a 41% hike in the total dividend to 7.2p.

Retail sales edged ahead by 1.9% on flat profits as currency-driven cost inflation was offset by improved cost efficiency, a credible result considering wider high street woes and price competition from supermarkets.

Meanwhile Naked Wines, Majestic's long-term growth engine, grew sales grew 11.3% to £156.1m with a six-fold rise in adjusted EBIT to £8.7m.

Bears might point to aggressive price competition from supermarkets in the UK market, although bulls will argue Majestic has a significant opportunity to acquire profitable new customers in key markets, with the entrepreneurial Naked Wines accelerating Majestic's online sales and paring exposure to a tough UK retail market.

Gormley has said he expects the UK market 'to remain tough, possibly even tougher than last year', yet with Naked Wines in tow, Majestic has exposure to the USA and Australia and 45% of group sales are already generated online.

## PROGRESSIVE PAYOUT

Management intends to continue a progressive dividend in the current financial year.

This is despite the expectation of a fall in profit due to an accelerated investment strategy designed to take advantage of a market opportunity that appears bigger than previously thought.

Some £14m was spent on customer acquisition last year and management intends to spend an additional £5m-to-£8m this year.

Gormley still expects to achieve £500m in sales by 2019 and Majestic's returns profile on its investment spend is trending up as it optimises its customer acquisition strategies; encouragingly, the same strategies being used successfully for Naked Wines work in the Retail business too.

For the year to March 2019, Shore Capital forecasts lower adjusted pre-tax profit of £14.8m (2018: £17.2m), ahead of a rise to £18.4m and then £21.2m in 2020 and 2021 respectively as Naked Wines delivers higher profits. Shore also forecasts a dividend rise from 7.2p to 7.4p this year, ahead of 7.5p and 8p thereafter. (JC)

**BROKER SAYS:**   



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# Why credit check firm Experian should be in your portfolio

Data is being heralded as the new currency and this stock is central to the theme

**W**hile fretting about your credit score, take a moment to think about the companies that hold the information. **Experian (EXPN)** is one of the largest.

Even with the emergence of free to use credit rating companies (Experian now also provides such a service) this company has been growing at a steady click.

We believe there is further for this company to go as it has a vast geographical footprint, operates in 37 countries and offers crucial services to clients including the UK Government.

## DATA IN DEMAND

When listening to business leaders, asset managers and banking executives, they often say that data is the new currency. If this is the case, then Experian is a great play on this trend as it collates and uses data in a variety of ways.

The company helps businesses make decisions about their customers by providing financial information to determine their creditworthiness. For individuals, it can help protect against fraud and identity theft.

Robin Speakman, analyst at broker Shore Capital, says the

## EXPERIAN BUY

(EXPN) £18.69

Stop loss: £14.95

Market value: £17.1bn

core driver of its strong 2018 results was 'the strength in demand for data based services from the group's wide variety of clients across all regions'.

For the 12 months to the 31 March 2018, the company increased its revenue by 5.7% to \$4.58bn and adjusted pre-tax profits by 3.4% to \$1.2bn. These results were 'slightly above' Speakman's forecasts and he now predicts a 6.5% increase in Experian's 2019's adjusted pre-tax profits to \$1.24bn.

## LOWER RISK GROWTH

Experian is highly liquid with a copper-bottomed balance sheet. Its first quarter trading update released on 13 July showed organic revenue growth of 8% for the whole company.

This was led by both its North American and EMEA/Asia Pacific businesses where both regions experienced organic revenue growth of 11% where new contracts were the

driving force.

This growth rate was brought down by the UK and Ireland only hitting 3% and Latin America where Brazil's economic woes impacted the growth of the business.

## GOING FORWARD

Aside from organic growth, Experian is also on the acquisition trail with ClearScore in the UK being one of its main targets.

For a quality company with this much growth potential, a multiple of 20.1-times 2019's \$1.02 of earnings looks attractive.

**BROKER SAYS:**   





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## COMPANIES PRESENTING

### ANGLO ASIAN MINING (AAZ)

**Bill Morgan, CFO**

Anglo Asian is a gold, copper and silver producer in Central Asia with a broad portfolio of production and exploration assets in Azerbaijan. The Company has a 1,962 square kilometre portfolio, assembled from analysis of historic Soviet geological data and held under a Production Sharing Agreement modelled on the Azeri oil industry.

### KODAL MINERALS (KOD)

**Bernard Aylward, CEO**

Kodal Minerals primary focus is the development of its Bougouni Lithium Project in Southern Mali – an emerging lithium province which has already attracted the attention of investors and off-take partners seeking to secure long-term supply of strategic commodities including lithium.

More to be announced

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## MEGGITT

(MGGT) 568.2p

**Gain to date: 13.4%**

**Original entry point:**

**Buy at 501.2p, 14 June 2018**

OUR ENTHUSIASM for this company has paid off and with its half year to 30 June results released on 7 August, it seems an appropriate time to have another look at aerospace and defence company **Meggitt (MGGT)**.



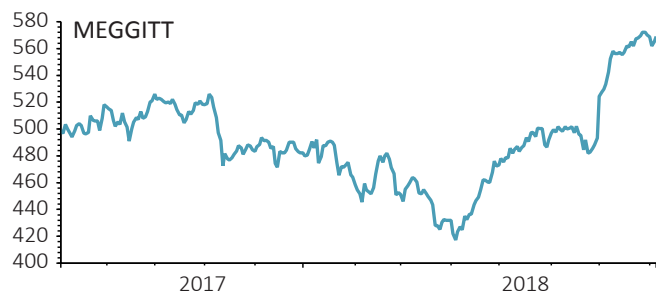
One of the things we liked about the business was the amount of big contracts it had secured. Interim results show that the company's orders had grown organically by 24% to £1.1bn with revenue increasing 9% to £952.2m, both on a year-on-year basis.

The revenue growth was driven by strong trading in the civil aftermarket and military. Significantly the company's free cash flow was £16.1m higher than market forecasts, coming in at £27.1m.

The share price was lifted by the company increasing its full year revenue growth guidance from 4% to 6% in July.

One disappointment is the full year operating margin being forecast to be at the bottom end of the 17.7% to 18% range.

Sandy Morris, analyst at investment bank Jefferies, says 'We still regard the Meggitt equity story as long term in nature, but after a torrid patch it is good to see the story gain momentum'.



**SHARES SAYS:**

Keep buying these shares. (DS)

**BROKER SAYS:**

## STRIX

(KETL:AIM) 171.2p

**Gain to date: 22.3%**

**Original entry point:**

**Buy at 140p, 26 April 2018**

KETTLE CONTROLS company **Strix (KETL:AIM)** seems to be ticking along nicely judging by last month's trading update (18 July).

The announcement struck a confident tone on performance that effectively confirmed that it remains on track to meet full year 2018 expectations.

That implies about £29.2m of pre-tax profit on something close to £96m to £96.5m of sales.

Cash conversion continues to be very strong which should make investors feel that bit more comfortable about dividends this year, not that there has been any real doubt about the anticipated 7p per share payout.

Perhaps the standout information was on its relatively new U9-Series product, its lower cost line largely aimed at penetrating less regulated end-markets overseas, particularly China. Securing around 1m units for delivery across various specifications versions is a cracking start.

A note about successfully fighting off IP infringement in China and elsewhere also shows that the company is capable of battling its corner and not being bullied by bigger electronics suppliers.

Light on financial data, we'll get more detail at half year results on 9 September.



**SHARES SAYS:**

Things seems to be going swimmingly for the company, and the stock's 22% gain to date is a great start. (SF)

**BROKER SAYS:**



An aerial photograph of a dragon fruit (cactus pear) plantation. Several workers are visible, some wearing hats and gloves, harvesting the red, segmented fruits from the green, branching cactus plants. The ground is dry and sandy. The workers are positioned at various points in the field, with one worker in the foreground wearing a large yellow hat and another in the background wearing a pink hat.

# Contrarian investing in Asia

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# Failed IWG buyout shows yawning valuation divide

Gap between management expectations and what suitors will pay remains large

**F**lexible office space supplier **IWG (IWG)** this week walked away from possible takeover talks.

After months of speculation that saw the share price chased from below 200p to more than 325p, private equity firms Starwood Capital, Terra Firma and TDR have all been told by IWG management to take their buyout interest elsewhere.

This has not gone down well with investors and the stock has sunk back to 233.3p, including a 20% slump on 6 August. This is not the first time IWG has rebuffed buyout interest, with analysts at investment bank Berenberg believing that the company has effectively been 'for sale' since 2015.

The office rental market is going through significant change, partly driven by the runaway success of US-based serviced co-working rival WeWork. For a fixed monthly fee flexible serviced space providers offer reception facilities, meeting rooms, refreshments and the cheap internet access and calls needed by the thousands of small digital businesses that have emerged over the past decade.

IWG itself believes that flexible workspace is experiencing 'its' most exciting stage of growth in over 30 years, which is why it has been so keen to protect its independence.



That IWG has now lost much of the takeover premium that had previously swollen the share price has left some market watchers to call the company 'exceedingly cheap' compared to WeWork.

The US firm generated 2017 revenues of about \$900m, according to Bloomberg, which implies that it is being valued in excess of 22-times sales. That's based on the implied \$20bn valuation following a \$4.4bn investment by Japan's SoftBank earlier this year.

Many analysts had been anticipating offers for IWG in the 320p to 350p per share range, yet even at the higher end of that range it would put

the company on just 1.3-times this year's forecast £2.47bn of revenue.

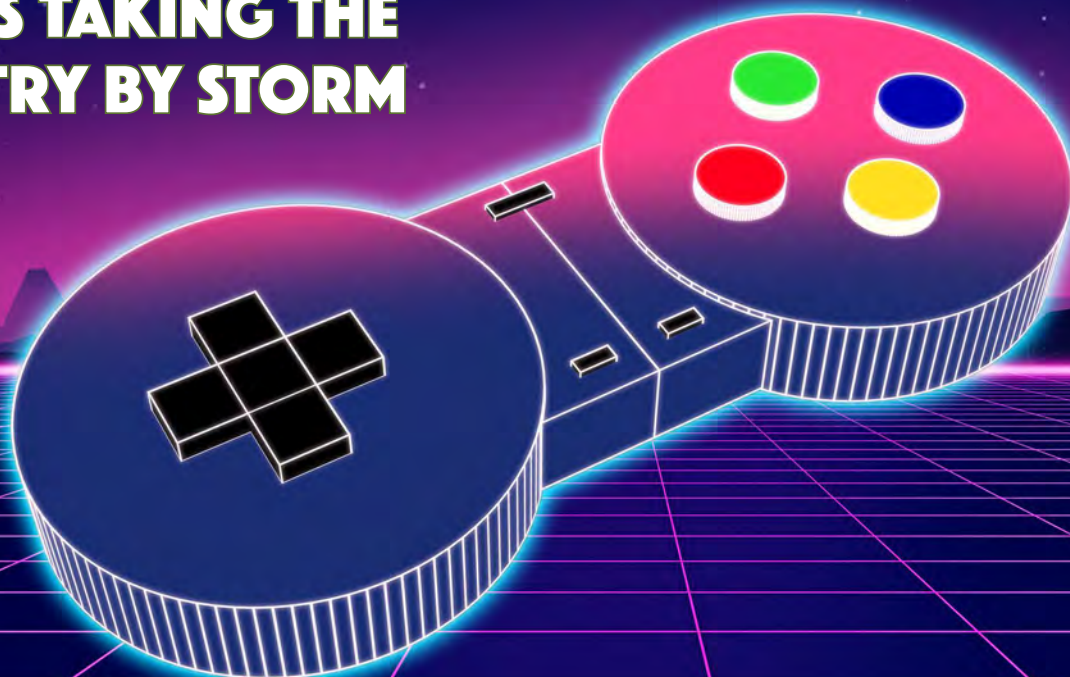
What is really interesting for investors is that IWG generates significant profit and cash flows as well as top line growth. It also pays reliable dividends, the latest of which was up 11% year-on-year.

That's very different to WeWork, which has yet to make a profit and still burns through millions of dollars of cash every year.

As Berenberg says, whether offers more in line with WeWork valuations 'ever come is increasingly unclear,' but it could certainly imply that IWG remains in play. (SF)

# DIGITAL DYNAMOS

## THE UK VIDEO GAME STOCKS TAKING THE INDUSTRY BY STORM



**A**re you seeking to plug your portfolio into an industry with dynamic long-term growth prospects? Then look no further than the global video games industry, which staggeringly, has become the world's biggest entertainment market worth roughly \$116bn a year, the combination of game devices, cloud computing platforms and the opportunity for fast digital delivery driving explosive growth in the number of consumers playing games.

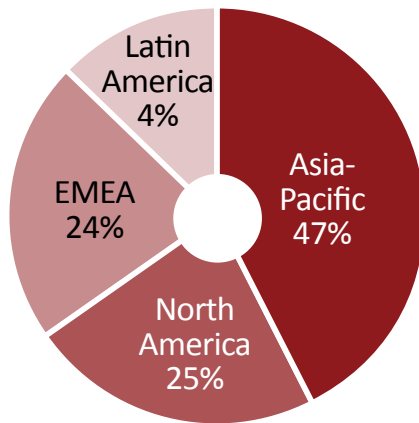
Over the last five years, the massive downloads achieved by freemium mobile games have grabbed the headlines, but higher budget, quality-led creative games have become multibillion dollar franchises.

What has changed for PC and console

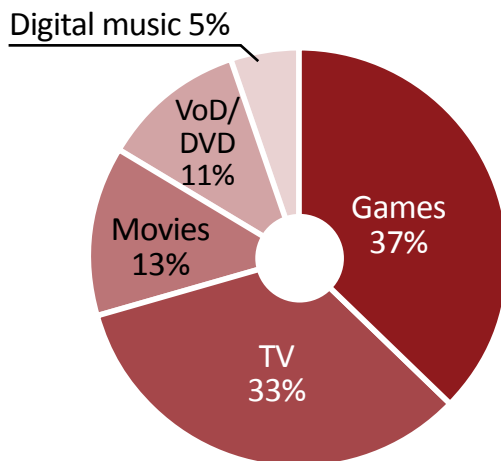
game developers is the globalisation of their businesses, driven by cloud-based distribution. This has dramatically transformed the way they take their games to market, the economics and enhanced the opportunity to build long-term relationships with gamers.

As Liberum Capital outlines in a recent initiation note on AIM newcomer **Codemasters (CDM:AIM)**, 'the economics for games developers have been transformed. Most developers retain sizeable, traditional (lower margin) boxed sales channels, but importantly, today they are able to go direct to the consumers with their "digital goods" or via platforms such as Xbox, PS4 or Steam, retaining around 70% of the post-tax retail selling price of the game'.

#### ESTIMATED GAMING MARKET GEOGRAPHICAL SPLIT (2017)



#### GAMING IN THE MEDIA SECTOR CONTEXT (£314BN MKT)



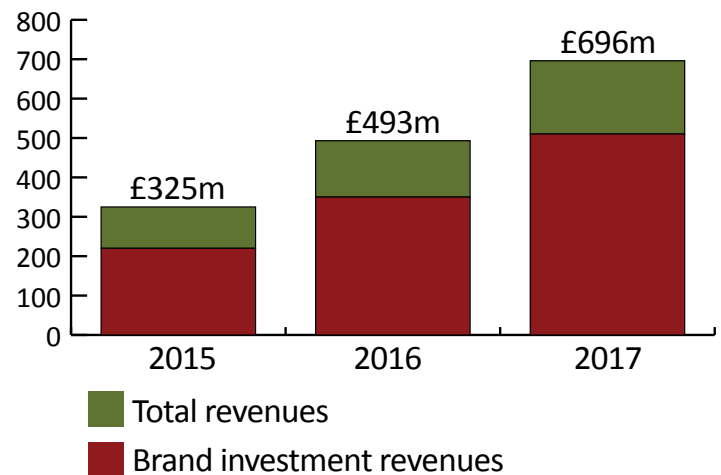
Source: Newzoo, Statista, Home Media, IFPI

Growing global confidence in the gaming sector was in evidence at the recent E3 computer game conference in Los Angeles, where Microsoft announced the acquisition of four studios and plans to open a new additional studio in Santa Monica.

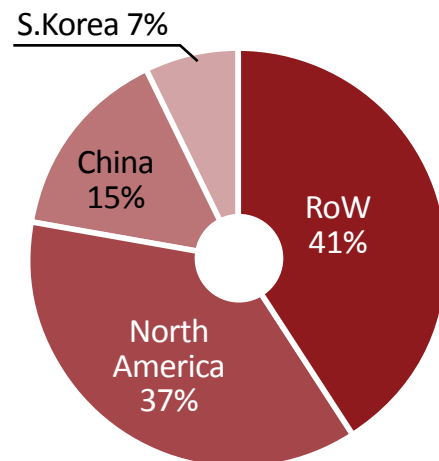
Video games are a bright spot in an otherwise gloomy UK consumer space, where quoted players include self-published game franchises creator **Frontier Developments (FDEV:AIM)** and junior market newcomers **Sumo (SUMO:AIM)**, **Team17 (TM17:AIM)**, Codemasters and technical services provider **Keywords Studios (KWS:AIM)**.

Another way to play the gaming boom is **GAME Digital (GMD)**, transforming into the leading eSports venue organiser via a joint venture with **Sports Direct (SPD)**. The growth of eSports, the activity of watching others game competitively, has been spectacular, generating \$493m in revenue in 2016 with an audience of 320m people.

#### ESPORTS GROWTH



#### GLOBAL ESSPORTS REVENUE SHARE (2017)



Source: Newzoo, Peel Hunt

#### WHY IS THE INDUSTRY BOOMING?

Spending on video games hardware and software has exploded over the last five years, ahead of all other major entertainment and media categories. David Wilton, chief financial officer of Sumo, says this is 'one of the most positive sectors I've come across. It is still very immature and fragmented.'

'The average age of the gamers is going up every year and we've got more and more people playing games in new parts of the world. In the past, the sector was lumpy and the quality of the games was variable.' Yet today, 'the graphics are stunning, the quality of the games is incredible and there is more demand than there is capacity to supply the games.'

Structural shifts are afoot in video gaming, a highly addictive leisure activity with resilient qualities, notably the marked shift from purchases of packaged software to digital downloads, which improves the profitability of video game companies and makes it easier for



them to expand internationally.

Another benefit from the digital shift is the move towards a 'Games as a Service' concept where it is standard for games to be designed for long term play, supplemented by downloadable content (DLC) that users pay extra fees for on top of the original purchase of the game.

#### UP IN THE CLOUD

Liberum Capital number cruncher Andrew Bryant has immersed himself in this exciting sector and informs *Shares* that 'investors have in the past focused on high development and launch costs, the emergence of free mobile games, and the perceived binary outcome of an individual game's success.

'However, games developers today have a deep understanding of the Games industry eco-system, place significant emphasis on extensive dialogue with an engaged player community, refines and pre-markets with reviewers and vloggers.'

Bryant continues: 'Ten years ago the IT challenge of delivering a great gaming experience onto the PCs and consoles of players around the world, meant that publishers were forced to take stock risk to burn vast amounts of data onto disks and sell them through complex, global physical retail chains.'

Bryant highlights how improvements in broadband and mobile networks have supported a shift from physical retail to online digital distribution.

'The combination has contributed to an explosion in the number of global consumers playing games and the economics for the game developers. For companies like Frontier that previously sat towards the back of the supply chain developing the games (ideas, creation, coding), they received a disproportionately low percentage of the selling price in return for their high IP contribution.

'Today their "digital goods" are produced and can be distributed over the network at marginal costs approaching zero. Frontier and other game developers are therefore able to go direct to the consumers and retain close to 100% of the retail selling price of the game.

'We believe there is still scope for the whole gaming sector to be further re-rated as investor's value their global B2C cloud software businesses.'

In a March note entitled 'TECHNOLOGY:

MORE THAN JUST FUN AND GAMES', Peel Hunt trio Ashu Sony, Damindu Jayaweera and James Lockyer highlight a concentration of global publishers in the US and Asia, yet they stress 'the UK remains an important gaming hub with a worldwide presence.'

The Peel Hunt trio says 'the UK has a rich history in the global gaming space, pioneering global hits including *GTA*, *Lemmings*, *LittleBigPlanet*, *Elite*, *TimeSplitters*, *Wipeout*, etc. Such wide success can be attributed to talent.

'The Global Talent Competitiveness Index shows that the UK is one of the top three countries in the world at attracting and retaining talent in the digital industry. UK universities also offer well-respected gaming degrees and the UK has multiple talent hubs for gaming: Manchester, Newcastle, Birmingham and London are the largest. With the government also providing support in the form of video game tax relief (VGTR), the UK has a thriving video game market.'

And a resilient one at that. Trade body UK Interactive Entertainment recently highlighted that the UK experienced 12% growth in gaming expenditure in 2017, despite pressure on UK disposable incomes, crediting 'an ever expanding audience'.

The growth was fuelled by an increasingly larger audience demanding digital games and the success of new titles such as *FIFA 18*, *Assassin's Creed Origins* and *Star Wars Battlefront II*.



MarketWatch reports that with 90m sales worldwide and \$6bn in revenue, GTA V is the "most financially successful media title of all time"

## FOLLOW THE SMART MONEY

Some of the UK's smartest fund managers have put money to work in the industry, among them Michael Lindsell, manager of the **Lindsell Train Japanese Equity Fund (0438418)**, which recently opened a position in Square Enix, one of Japan's leading video game publishers.

Lindsell argues 'the investment case behind Square Enix is underpinned by its unique and rare collection of IP with *Final Fantasy* standing out in particular as one of the top ten selling video game franchises of all time.

'The video game industry's digital shift away from a 'units sold' model to a 'Games as a Service' model based on users, engagement and digital monetisation presents Square Enix with a material opportunity to generate top and bottom line growth.'

And Ben Rogoff, manager of the **Polar Capital Technology Trust (PCT)**, explained in his recent full results commentary, 'Computer gaming companies enjoyed another strong year

with most of our holdings' - positions include Activision and Electronic Arts and Take-Two Interactive 'significantly outperforming the technology market.

'With two-thirds of American households regularly playing them, video games have truly evolved into a mass market medium. Adoption has been enabled by the proliferation of increasingly capable electronic devices and Internet connectivity, which has enabled the creation of large player networks and digital distribution.'

Interestingly, Rogoff added: 'While we remain constructive on the group, we are continuing to monitor the progress of Fortnite, a free to play console (and now mobile and PC) game which has attracted more than 45m players with a new game genre ("Battle Royal").

'Unlikely to pose much risk to existing AAA franchises, the back-end only monetisation of Fortnite is new to console gaming and could potentially prove disruptive over time.' (JC)



Fortnite, a multiplayer survival game (Battle Royale) that is free to play, has generated more than \$1bn in total revenue, according to Superdata, for publisher Epic Games since its July 2017 launch, through paid in-game content.

Peel Hunt argues 'the success of Fortnite can be attributed to its highly engaged user base, freemium gaming model and cross platform capabilities (eg PC gamers can play with PlayStation players). We expect that developers/publishers will be incorporating some of Fortnite's successful traits going forwards (eg multiplayer survival modes) and will place an increased focus on keeping their user base

engaged, leading to a longer sales profile for successful franchises.'

User engagement is the key to the success of celebrities' favourite Fortnite, whose live games can be streamed, or recorded or stored, ensuring the best moments for a player aren't missed. The popularity of the Battle Royale game mode has fundamentally altered how publishers will create their games going forward.

Rather something to fear, 'for us, Fortnite is an opportunity,' insists Sumo's Wilton, 'because it is growing the market. It has been a big success in the mobile market and it is increasing the number of people who play games.'



# AT THE TOP OF THEIR GAME

## Frontier Developments (FDEV:AIM) £11.05

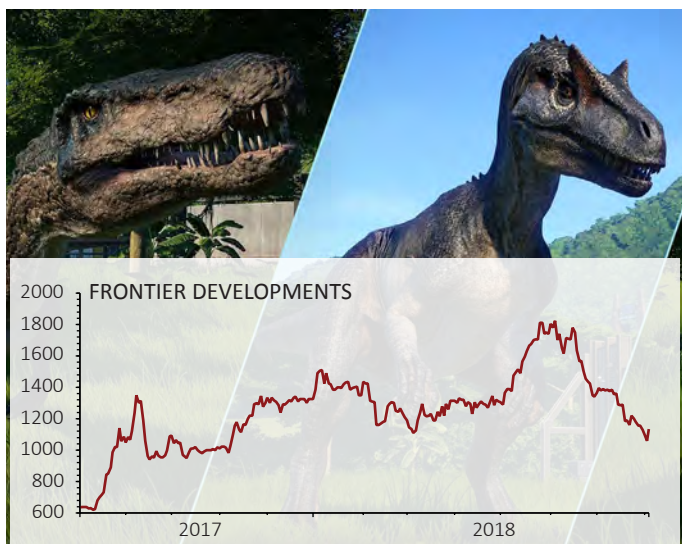
Founded in 1994 by CEO David Braben, co-author of the seminal *Elite* game, **Frontier Developments' (FDEV:AIM)** shares have soared since its July 2013 AIM debut at a 127p issue price.

Chinese internet-to-interactive entertainment titan Tencent put its stamp of approval on Frontier last summer, investing £17.7m in return for a 9% stake, to help Frontier attack the vast Chinese market and scale-up by increasing the frequency of major releases.

Frontier Developments enjoyed material forecast upgrades for the year ending 31 May 2019 following a positive trading update (3 Jul), in which it flagged early success with its third game franchise, *Jurassic World Evolution*, which has quickly passed 1m units sold.

Significantly, the upgrade was based on forecasts for the Jurassic World title, together with the expected performance of Frontier's first two franchises, *Elite Dangerous* and *Planet Coaster*. Both are performing well and in addition to producing its own games, Frontier will also consider third party publishing to accelerate its growth plan, namely controlling the promotion and distribution of other developers' games.

FinnCap analyst Lorne Daniel's upgraded full year to May 2019 forecasts point to a leap in sales from £34m to £75.3m, sending adjusted profit before tax roaring higher from £2.6m to £16.5m, with potential for further upgrades if success continues. (JC)



## Codemasters (CDM:AIM) 216p

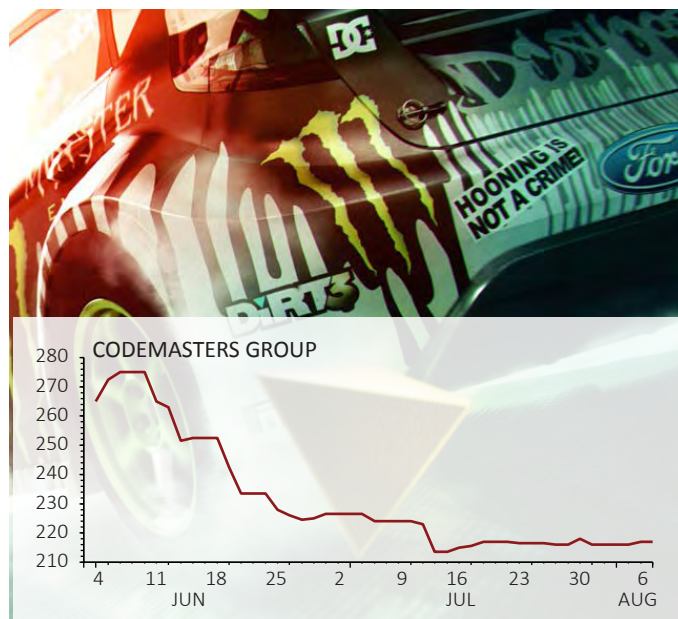
Recent share price weakness at this video games publisher presents a buying opportunity. One of the most recognised British games developers, it specialises in premium quality car racing games and holds exclusive licensing rights for the Formula 1 game franchise and also has three own-IP racing franchises: *DiRT*, *GRID* and *ONRUSH*.

Founded by the Darling family in 1986, the company boasts a loyal fan club of gamers, a balanced racing games portfolio and strong ties to leading car manufacturers and automotive brands.

The company has been successfully turned around by the current management team, led by CEO Frank Sagnier, with sales and adjusted earnings before interest, taxation, depreciation and amortisation (EBITDA) having increased year-on-year since 2015.

The £15m of fresh growth funds raised at IPO will help Codemasters extend the reach of its existing franchises onto more platforms such as mobile and virtual reality and beef up marketing to reach a wider audience of gamers. Liberum has initiated coverage with a 'buy' rating and 310p price target, implying the best part of 45% upside.

The broker's estimates for the year to next March suggest a pre-tax profit surge to £16m (2018: £11.6m) for earnings of 11p, ahead of £18m and £20.5m in 2020 and 2021 respectively. (JC)





# AT THE TOP OF THEIR GAME

## Sumo (SUMO:AIM) 171p

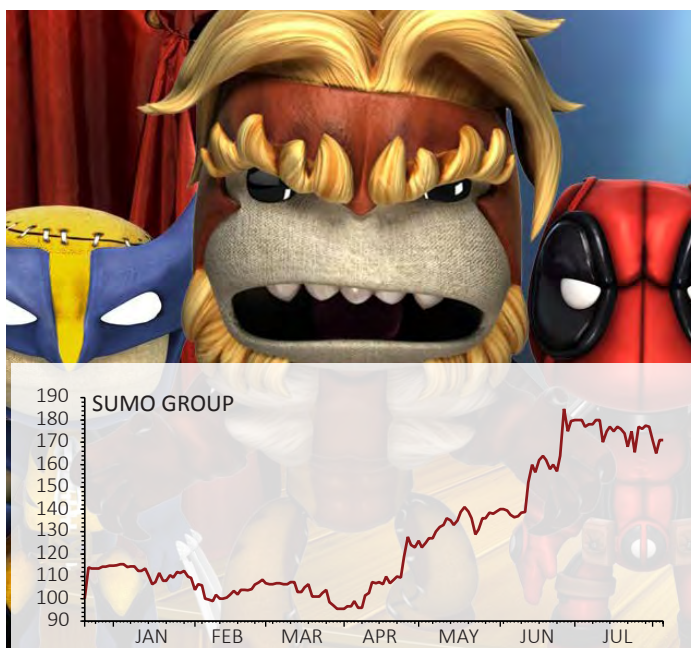
This small cap games developer has made a solid start to quoted company life and is attractively positioned as a premium services partner for global games publishers.

Maiden full year results (24 Apr) came in slightly ahead of estimates with revenues up 39% to £28.6m and adjusted PBT 42% higher at £7.5m. Boasting £12.4m net cash in the coffers and a strong cash flow profile, the business has adequate resources for strategic M&A in a fragmented industry.

Debuting on AIM in December, having raised £38.45m of fresh funding at 100p, the company is growing organically as one of the world's leading co-developers of AAA-rated gaming titles. Its work-for-hire model means it is not exposed to risks associated with the hit driven nature of a games publisher and has high visibility compared to peers.

As CFO David Wilton explains: 'We either do a turnkey solution or we do co-development and we get paid every month by delivering against milestones. We get profits and cash over the life of the project and an upside (from royalties) at the end if the game is successful.'

Core business Sumo Digital is a leading developer of AAA-rated video games operating out of studios in England, India and Canada. For 2018, Zeus Capital forecasts adjusted pre-tax profit of £9.1m (2017: £7.5m), rising to £12m in 2019. (JC)



## Team 17 (TM17:AIM) 255p

This recently floated games developer has been around for the best part of three decades, but its development was accelerated by a management buyout in 2011.

Steered by chief executive Debbie Bestwick and numbers man Paul Bray, the company is perhaps best known for its *Worms* franchise which was a big success in the 1990s.

However, it is now a much more diversified business thanks to its Team17 Games Label platform which allows indie developers to bring games to the market through a revenue sharing model.

Accordingly, *Worms* has gone from accounting for 80% of group revenue in 2014 to just 18% by 2017. The shares aren't cheap at around 32 times Berenberg's forecast earnings per share but are justified by the growth profile. Particularly given the scope for positive earnings surprises.

On 18 July the company confirmed it was on track to hit full year expectations and it has just launched a sequel to its well-received *Overcooked* title.

Bestwick says: 'The announcement of *Overcooked 2* and early access launch of *My Time At Portia* provides further evidence of our commitment to building brands and collaborating with some of the most creative indie partners around the globe.' (TS)



## KEYWORDS AIMS TO UNLOCK GAMING'S FULL POTENTIAL

WORKING BEHIND THE scenes for some of the big game developers, Keywords Studio (KWS:AIM) has 23 of the top 25 game producers as clients and using a buy and build model is picking up new companies and offerings at a tremendous pace.

Keywords is not reliant on the success of a single game or even a handful of titles. It provides the 'picks and shovels' to get these products to market and is paid regardless of how popular they are.

The model clearly appeals to investors, at £17.14 the shares are up nearly 13-fold on the issue price from its July 2013 IPO and trade on a price-to-earnings ratio of 40.3 times 2018 forecast earnings per share.

Andrew Day, CEO of Keywords says he's not really after more clients as his list is already stellar. Moreover, given the amount of services he can offer his clients, he wants them to use his company for multiple tasks.

'One of the problems we've had as we've increased our level of capabilities is to show our clients the level of our new offering,' says Day.

Day says the big trend at the moment is a move into games that are continually supplying new content into existing games. This is to keep players 'engaged' according to Day and the new content can come weekly or even daily.

Another 'big thing' Day has noticed is the increasing sophistication of mobile games. The old MMO (massive multiplayer online) model mobile games is merging with a pay to play

model and 'people are willing to play more and more sophisticated' games on their mobiles.

### KEYWORDS CONTINUED EXPANSION

The company recently moved into gaming analytics with the acquisition of Yokozuna Data for \$1.6m. This move was hot on the heels of the purchase of Snowed In, a software engineering firm.

Day explains that predictive analytics is about being able to read when players are about to leave and trying to increase the level of spend within a game.

In terms of the price Keywords has paid for its astounding number of acquisitions, Day surprises with his response.

'We are the known buy and consolidator in this sector so we can set the price. Most of the conversations in this space are less about valuations

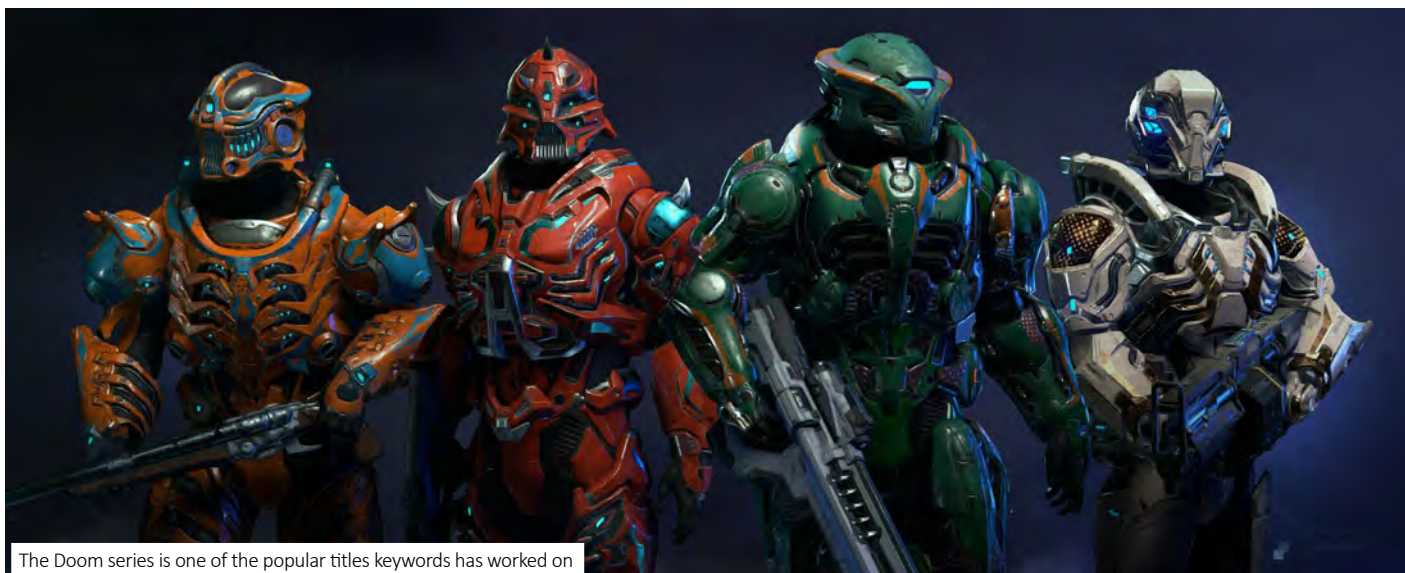
and more about making sure they are getting the same sort of deal out of the Keywords deal that others got,' says Day.

In its earlier incarnations, Keywords was a company offering translation services to games producers to enable them to market their games to a wider audience.

From a single service line business, Keywords now offers seven service lines and has an addressable market of around \$6bn.

Keywords is becoming more vital in the game production supply chain as it diversifies its offering with each new acquisition. (DS)

Shares up  
**13-fold**  
on 2013 IPO



The Doom series is one of the popular titles keywords has worked on



# Markets may need the FAANGs to show more bite and the BATs to fly again

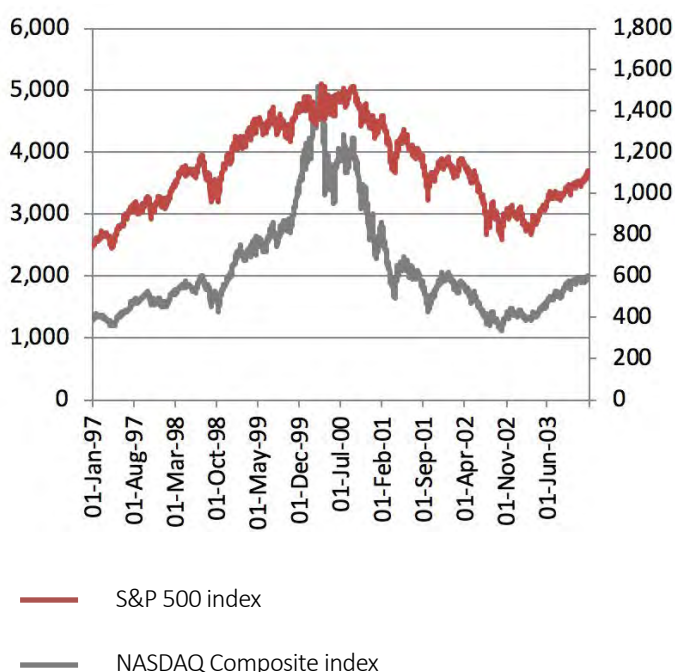
Investors should be mindful of a potential shift from growth to value stocks

**T**here is an old market rule which says that when the individual stocks or sectors that took the broader market indices higher start to tire and roll over then everyone needs to be careful.

And it is an old market rule because it has stood the test of time.

For example, see how the NASDAQ Composite index rolled over before the broader US stock indices did, just as the bursting of the technology, media and telecoms bubble sowed the seeds of a wider equity market downturn in early 2000. A three-year bear market ensued in the USA (and the UK, Europe and Asia, for that matter).

## NASDAQ'S LOSS OF MOMENTUM IN EARLY 2000 HERALDED WIDER MARKET PROBLEMS AS TECH BUBBLE BURST



Source: Thomson Reuters Datastream

During the 2003 to 2007 period it was financial stocks, and particularly banks, that made the running. Lo and behold they peaked in 2006, as someone, somewhere sensed that too much money was being loaned in too free-and-easy a way and that rising interest rates would make things a lot more difficult for borrowers and lenders alike. Global stock indices hit the wall in mid-2007 and brutal 21-month market slump followed.

## ROLL-OVER IN PREVIOUSLY MARKET-LEADING FINANCIALS STOCKS WARNED IN 2007 OF TROUBLE AHEAD



Source: Thomson Reuters Datastream

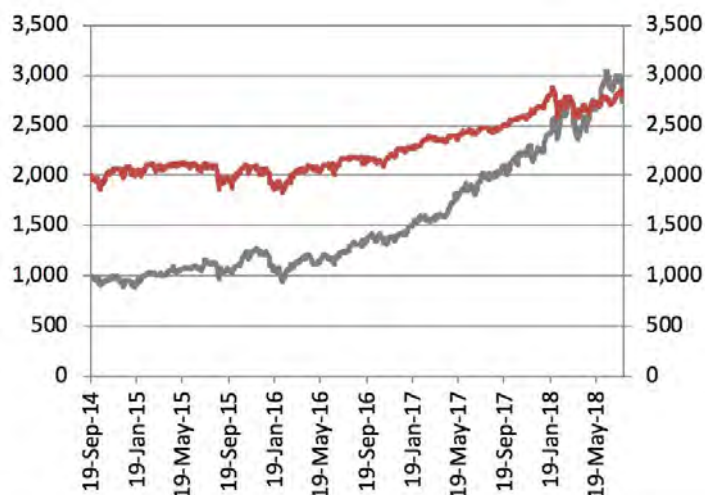
It requires little imagination to guess which stocks have been taking global benchmark indices higher this time (not least because they feature in so-many passive fund that follow their own, smart beta, or customised index) – the FAANG stocks in America (Facebook, Apple, Amazon, Netflix and



Google's parent, Alphabet) and their Asian cousins, the BATs (Baidu, Alibaba and Tencent).

Investors with aggressive equity allocations may therefore be hoping, in the short term at least, that the FAANGs regain some bite and the BATs take flight again. Both groupings have begun to flag.

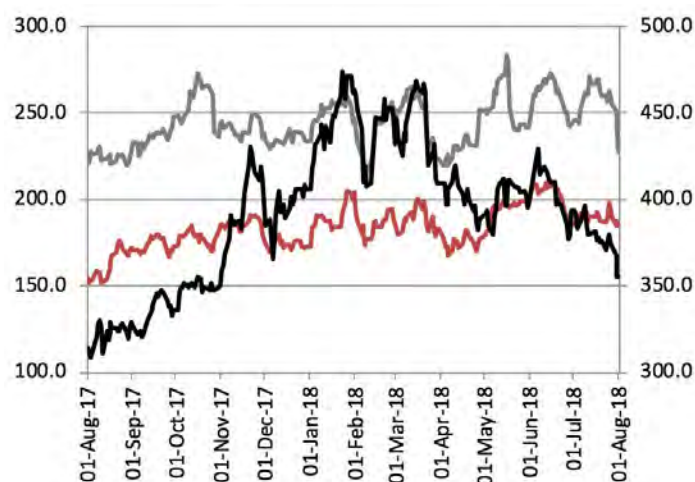
### FAANG STOCKS HAVE BEGUN TO SHOW SOME WEAKNESS



— NYSE Fang-Plus index  
— S&P 500

Source: Thomson Reuters Datastream

### ... AS HAVE THE CHINESE INTERNET WONDERS, THE BATs



— Baidu (\$)  
— Alibaba (\$)  
— Tencent (\$)

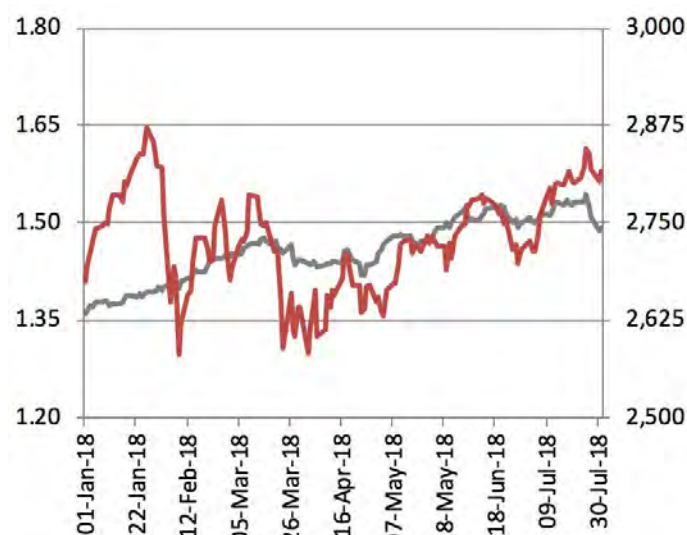
Source: Thomson Reuters Datastream

### ACTION REPLAY

These are trends which must be followed closely in the coming weeks and months, to determine whether it is just part of the summer silly season or a real trend that could have serious implications for investors' portfolios.

We already have one potential clue. The S&P 500 growth stocks index started to underperform the S&P 500 value stocks late in the second quarter, a marked break from anything we have seen for several years (with the exception of 2016).

### VALUE HAS JUST STARTED TO OUTPERFORM GROWTH AGAIN



— S&P 500 Growth index /  
S&P 500 Value index  
— S&P 500 index

Source: Thomson Reuters Datastream

The past is not guaranteed to repeat itself and such a switch does not necessarily herald the end of the bull market at the very least it may mean that investors may need to consider how much risk they are taking, if they have substantial exposure to growth and momentum plays via their preferred active and passive funds.

At first glance it can be argued this has limited implications for UK stocks. Technology Hardware may be the fourth-best performer among the 39 industrial groupings which comprise the FTSE All-Share, but Software & Computer Services is the worst (thanks to FTSE 100 member **Micro Focus (MCRO)**) and between them they are

tiny, representing just 1% of the index's market capitalisation.

## CYCLICAL OR SECULAR

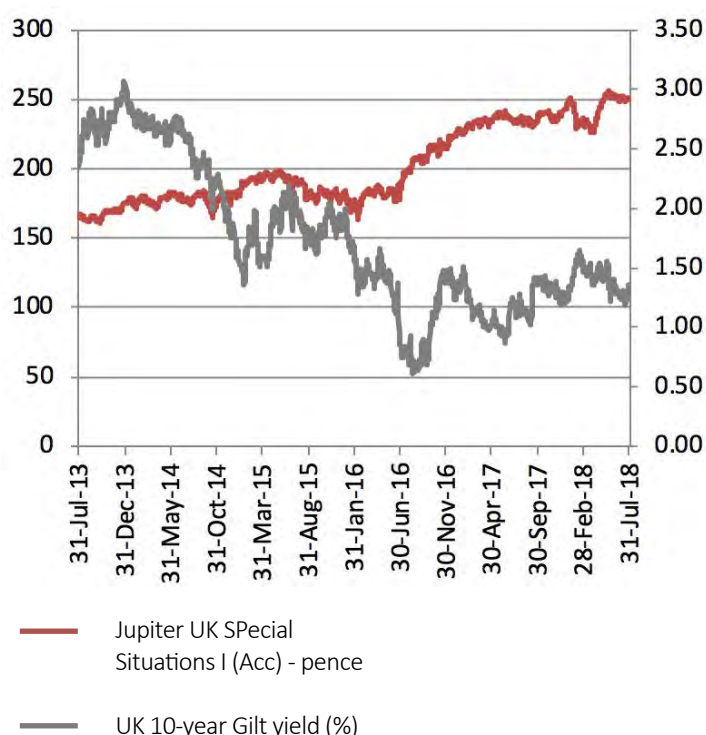
However, improved performance from value relative to growth could have implications for fund selection.

It is noticeable how value-oriented funds, such as **Jupiter UK Special Situations (0477734)** for example, has shown improved performance of late (and indeed has done so since the UK ten-year Gilt yield bottomed some time ago).

Perhaps this lies at the heart of the value versus growth debate. Gilt yields may well take their lead from central bank interest rate decisions, with the following implications:

- If the Bank of England is tightening policy because the economy is doing well and inflation is accelerating, then in theory corporate profits growth should be robust. There is therefore less reason to pay very high valuations to get access to the secular growth offered by sectors such as tech and biotech if a rapid cyclical upturn in company earnings is underway.

## VALUE-ORIENTED FUNDS ARE ALSO SHOWING SIGNS OF (OUT)PERFORMANCE



Source: Thomson Reuters Datastream



Apple recently opened their £3.5bn Campus 2

- Many momentum and growth stocks are priced off the earnings that they are expected to generate some way off into the future. These profits are often valued according to a discounted cash flow model, or DCF, which applies a discount (or interest) rate to those earnings and discounts them back to get a value for them in today's money. The *higher* interest rates go, the higher the discount rate and the *lower* the value of those future earnings today – something which could affect tech stock valuations, for example.

Gilt yields (and unwittingly the Bank of England) may have a big say in the 'value versus growth' debate and therefore the direction of stock markets overall, *if* the change in stock leadership becomes a trend, with all of the historical implications this has for headline indices.

**Russ Mould, AJ Bell Investment Director**



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# An introduction to REITs

Many of these property vehicles trade at a discount to asset value, is this justified?

**A** REIT or real estate investment trust is a vehicle which owns, operates or finances income-generating property.

The so-called REIT regime came into force in January 2007. By February of that year nine of the UK's big listed property firms had converted to REIT status and more than a decade on, the number of UK REITs is pushing in the direction of three figures.

There has been an acceleration in the REIT revolution since the criteria was relaxed in 2012.

According to accounting firm Grant Thornton 'Since then REITs have become an attractive, onshore, tax efficient vehicle for investors, offering the benefits of liquidity and access to specialist sectors such as healthcare and social housing.'

In this article we will offer a snapshot of the REIT landscape with a look at the diverse collection of REITs which currently trade in London.



Land Securities' recently completed Westgate Oxford Shopping centre has almost 800,000 square feet (74,000 m<sup>2</sup>) of retail, restaurant and leisure space

## KEY REIT ATTRactions

The key attraction of REITs from an investor perspective is that the tax treatment seeks to replicate the situation if you held the underlying properties directly.

REITs avoid paying corporation or capital gains tax on their rental income or cash generated from asset sales if they return 90% of their profits to shareholders as dividends.

Not only do REITs hand more of their earnings to shareholders than most other listed companies, but the

money is only taxed once, at the income stage.

At present many mainstream REITs trade at material discounts to net asset value, suggest the market thinks current property valuations are inflated.

Jefferies head of real estate Mike Prew, who is bearish on the space, argues: 'REIT balance sheets are an unreliable guide to value and income statements can be flattering.'

'Cash can't lie and REIT operating cash flows are weakening leading to dividend concerns. We think prime City of London office effective rents have fallen from £65 per square foot to £48 per square foot and its worse across retail assets where CVAs are biting hard.'

## THE ALL ROUNDERS

Two of the three largest REITs by market cap invest across several different property classes, they are **British Land (BLND)** and **Land Securities (LAND)**.

Both hold a mixture of office, leisure and retail properties, with a little bit of residential on the side.

## REITS – PRICE TO NAV

REIT	Share price to net asset value
British Land (BLND)	0.7
Derwent London (DLN)	0.8
Hammerson (HMSO)	0.7
Intu Properties (INTU)	0.5
Land Securities (LAND)	0.7
Segro (SGRO)	1.2
UNITE	1.2

Source: SharePad, 6 August 2018





The £1bn sale of 5 Broadgate enabled British Land to extend its 2018 share buyback programme

Recent share price performance has been fairly subdued, with British Land outperforming its slightly larger counterpart, perhaps supported by the £1bn sale of its joint venture – London office block 5 Broadgate. This enabled the company to extend its 2018 share buyback programme by £200m.

In the assessment of Liberum's real estate team, despite a flat market British Land is continuing 'to balance activity to deliver future value creation, while limiting its overall financial and speculative risk exposure'.

## RETAIL

A high street slowdown is putting REITs in this part of the market under substantial pressure. A string of retailers have entered

Company Voluntary Agreements enabling them to close loss-making stores and cut the bills they owe to their landlords. This is obviously bad news for big retail REITs like **Hammerson (HMSO)** and **Intu Properties (INTU)**.

In April France's Klepierre gave up on its pursuit of Hammerson after a 635p per share bid was rebuffed.

Hammerson abandoned its own £3.4bn merger with Intu amid mounting investor unrest over the move – leaving Intu crying foul and on a sticky wicket.

For its part, Hammerson is now looking to sell £1.9bn worth of assets by the end of 2019 as it focuses on flagship retail destinations and premium outlets.

Hammerson intends to exit

all retail parks over the medium term and has pressed pause on the Brent Cross shopping centre expansion, citing heightened market risks.

## INDUSTRIAL/LOGISTICS

This is currently the brightest star in the REIT firmament with participants often trading at a premium to NAV rather than the discounts seen elsewhere.

Demand for this type of asset is growing thanks to the structural changes which are negatively impacting the retail REITs, namely that we now largely shop online and this requires warehouses and logistics facilities to service deliveries.

More recently some observers have been warning of a bubble forming in this sector which could be pricked by the uncertainty over the Brexit process. **SEGRO (SGRO)** joined the FTSE 100 in mid-2017, propelled by the warehousing boom.

Other names in this space include **Tritax Big Box REIT (BBOX)** and small cap **Urban Logistics REIT (SHED:AIM)**.

## ALTERNATIVES

The REIT space has broadened out in recent years and now includes several interesting niches which are often less correlated to the wider property and financial markets.

These include student accommodation, as represented by the likes of **UNITE (UTG)** and **GCP Student Living (DIGS)** and social housing as represented by **Civitas Social Housing (CSH)** and **Triple Point Social Housing (SOHO)**. (TS)

# Understanding the impact of share overhangs

If a big investor is about to offload a large swathe of shares, what impact does this have on the price?

A share overhang is when a company has a large amount of shares in the hands of perhaps one or two holders which, if they were suddenly released on to the market, would ultimately flood it and dampen the share price.

There could be various reasons for a share overhang, it could be a founder looking to exit or a fund manager looking to offload a hefty interest in a stock. They also vary by scale.

## PRIVATE EQUITY EXITS

Private equity companies when floating a company will tend to keep a holding in the company once it has gone public.

Oliver Brown, investment director at RC Brown Investment Management, says one reason private equity companies retain part of the business is that investors like to see them to keep 'skin in the game'. This helps reassure potential investors that there is nothing fundamentally wrong with the business.

Brown was a buyer when **Hollywood Bowl (BOWL)** floated despite its private equity owners selling out completely. However, in this instance the private equity house had been approached by an investment bank saying there were plenty of buyers to meet the demand.

One of Brown's funds, **MFM UK Primary Opportunities**



“  
**There could be various reasons for a share overhang, it could be a founder looking to exit or a fund manager looking to offload a hefty interest in a stock. They also vary by scale**  
 ”

**(0960698)** fund, will look at an overhang as part of the process when selecting stocks.

He says that it may allow for a 'double discount' as along with the discount associated getting in at IPO, if there's a major shareholder selling out their stake this may also create an attractive buying opportunity.

## RBS AN OBVIOUS EXAMPLE

An obvious example of a share overhang would be **Royal Bank of Scotland (RBS)**. The Government still has a 62.4% stake in the bank after bailing it out in 2008.

When £2.6bn worth of these



shares were sold in the latest tranche in June 2018 (4 Jun) the share price hit a downward spiral.

On the day the shares were sold, they lost 3.5% of their value but with the chancellor Philip Hammond signalling his intent to sell down the stake further, this spooked the market and the price continued to drop.

As Brown notes there are other reasons that banks in general may be losing investor appeal such as the potential impact of Brexit and low interest rates which limits their profitability.

RBS has made something of a recovery, having not made a profit for ten years and recently resumed dividends but the share overhang looks likely to remain a risk for investors to weigh for the foreseeable future.

## THE ROLE PLAYED BY INDIVIDUALS

Julian Dunkerton, the co-founder of retail brand **Superdry (SDRY)**, recently sold £71m of its holding in his company after selling a 1.23% stake for £17.8m a few months previously. Should investors be worried that the person who was instrumental in the development of the business has decided he doesn't want to be involved anymore?

Brown, who has held Superdry at one point, was considering whether to buy back into the company. He says this type of overhang is fine as long as investors are comfortable with the reasons why the founder is selling up.

Others such as Mark Dixon, founder of serviced office company **IWG (IWG)**, are serial sellers of large swathes of shares.



“**Should investors be worried that the person who was instrumental in the development of the business has decided he doesn't want to be involved anymore?**”

One issue when big stakes are sold off intermittently is that it will cause share price volatility.

If an investor is a holder of a company which suddenly looks like selling large stakes in the company it may not be the best news in terms of impact on share price.

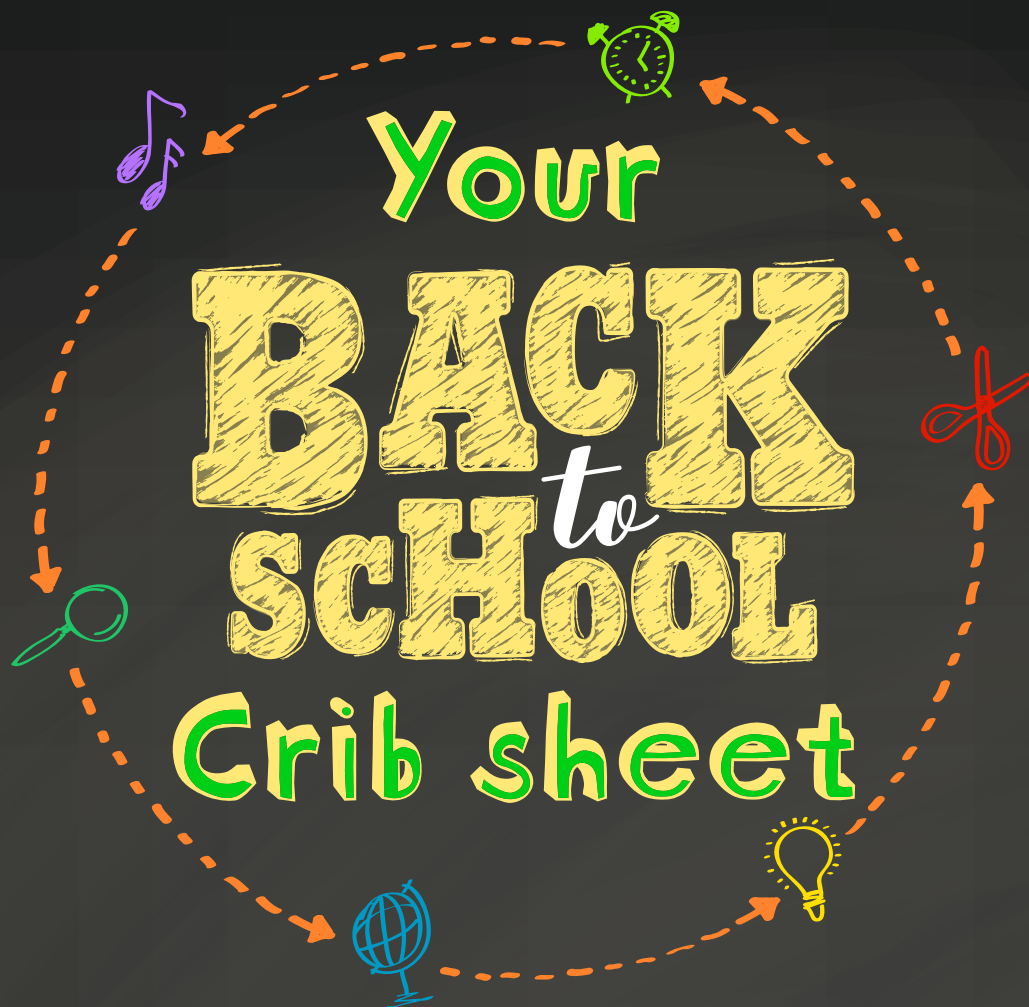
Alternatively, if an investor is looking at an entry point to a company, a large share overhang may be good news if it leads to some short-term weakness in the share price. Once the market has digested the available shares, chances are that the price may start its upward descent again.

However, while share overhangs can be an issue for a variety of reasons, there are by no means the first thing to consider when looking at a stock.

## FOCUS ON FUNDAMENTALS

Regardless of whether a business has a large overhang over it or not, it has to be a good business to consider investing.

As Brown says, ‘valuations trump overhangs’ every time. (DS)



## Get in the best investment shape for the end of the summer hols with our snapshot of the market

The tables featured in this article give you the perfect starting point to swot up on stocks during the summer lull and before the market kicks back into gear in the autumn.

We've pulled together five data-driven snapshots that should help drive idea generation for all investors whether or not your focus is on value, growth or income.

### LOW PE CANDIDATES (PRICE TO EARNINGS)

The widely-used PE ratio is a simple way of establishing the value of a share. It is the share price divided by the earnings per share of the company.

Fast-growing companies can often command a PE multiple in excess of 20; slow, pedestrian companies tend to be valued around 10 to 14 times earnings; and companies with either financial or trading problems will inevitably have a PE ratio below 10.

LOW PE CANDIDATES (PRICE TO EARNINGS)	
Company	Forecast PE
Reach (RCH)	2.1
EnQuest (ENQ)	2.8
Countrywide (CWD)	2.9
Connect (CNCT)	2.9
Ferrexpo (FXPO)	3.7
Bank of Georgia (BGEO)	4
Petropavlovsk (POG)	4.4
Interserve (IRV)	4.9
Debenhams (DEB)	5
KAZ Minerals	5.3

Source: SharePad, 3 August 2018, only includes FTSE All-Share companies



The trick for investors is to look at those names trading on lowly PEs and try and determine if there are any names on which the market is being overly negative.

Of the names in the table many are cheap for a reason. Newspaper publisher **Reach (RCH)** – previously Trinity Mirror – has stubbornly traded at a low single digit earnings multiple for some time and recently announced big write downs associated with its regional newspaper business. Some of the resources plays have significant borrowings which are reflected in the valuation (**EnQuest (ENQ)**) and all of them are susceptible to earnings volatility thanks to the underlying swings in commodity prices.

Estate agent **Countrywide (CWD)** is awaiting shareholder approval for an emergency share placing while department store **Debenhams (DEB)** has its own balance sheet issues.

Recently demerged **Bank of Georgia (BGEO)** could warrant further investigation given the strong economic growth in Georgia and the historic good performance of spin-off companies.

### BEST EARNINGS GROWTH

The ability to grow earnings consistently and quickly is typically a recipe for strong share price gains. A growth investor may not worry too much about valuation and focus instead on the size of the opportunity a business is chasing. The key

COMPANIES OFFERING BEST EARNINGS GROWTH	
Company	10 year annualised earnings growth (%)
Avon Rubber (AVON)	38.4
Games Workshop (GAW)	38.3
Ashtead (AHT)	34.4
DS Smith (SMDS)	34.1
British American Tobacco (BATS)	32.1
CLS Holdings (CLI)	31.1
Grafton (GFTU)	28
Rightmove (RMV)	26.2
Playtech (PTEC)	25.2
Centamin (CEY)	24.4

Source: SharePad, 3 August 2018, only includes FTSE All-Share companies ex-investment trusts

is to check that this earnings growth is being accompanied by plenty of cash flow.

Many of these firms, which have generated the most material ten-year annualised earnings growth of any FTSE All-Share constituents, are expensive. At 505p and on an April 2019 price to earnings ratio of 13.7, packaging play **DS Smith (SMDS)** is among the exceptions. It could be interesting given it is a beneficiary of the growth of online shopping.

### LOW PEG CANDIDATES (PRICE TO EARNINGS GROWTH)

The PEG ratio is a measure of value that combines a company's price to earnings (PE) ratio and its rate of earnings growth, thereby refining the PE ratio. A low PEG indicates you'll pay a low price for future earnings growth, anything below a reading of 1.0 is considered cheap.

LOW PEG CANDIDATES (PRICE TO EARNINGS GROWTH)	
Company	Forecast PEG
Renewi (RWI)	0.6
Man Group (EMG)	0.6
Wood Group (WG.)	0.6
Royal Dutch Shell (RDSB)	0.6
Kier (KIER)	0.6
SIG (SHI)	0.6
Melrose Industries (MRO)	0.6
Wizz Air (WIZZ)	0.6
IP Group (IPO)	0.7
Hunting (HTG)	0.7

Source: SharePad, 3 August 2018, only includes FTSE 350 companies

Watch out for very low PEG ratios as there could be something fundamentally wrong with the business. Some market commentators say the sweet spot for bagging a value investment is when the PEG ratio is somewhere between 0.6 and 0.8.

We have focused on this sweet spot and limited our search to FTSE 350 constituents. The oil-related names in **Royal Dutch Shell (RDSB)** and services plays **Hunting (HTG)** and **Wood Group (WG.)** have fairly difficult to predict earnings thanks to their exposure to see-sawing oil prices.

The most interesting names are probably industrial

buyout specialist **Melrose Industries (MRO)** and airline **Wizz Air (WIZZ)**. Melrose will be looking to dispel some lingering market skepticism around its ability to take on the challenge of turning around its biggest acquisition to date in GKN.

Hungary's Wizz upgraded full year earnings guidance in May, benefiting from decent economic growth in the areas it operates in and tight control of costs.

### COMPANIES OFFERING HIGH YIELDS

We've filtered the market for high-yielding stocks where dividends are comfortably covered by earnings. Cover below 1.5 times implies that the business may not be able to sustain the level of dividends presently forecast.

COMPANIES OFFERING HIGH YIELDS	
Company	Forecast yield (%)
Connect (CNCT)	15.3
Brown (N) (BWNG)	9.7
Evrax (EVR)	9.3
Crest Nicholson (CRST)	8.8
Galliford Try (GFRD)	8.6
Marston's (MARS)	8.3
Barratt Developments (BDEV)	8.3
Reach (RCH)	8.1
Kier (KIE)	7.5
Saga (SAGA)	7.3

Source: SharePad, 3 August 2018, only includes FTSE All-Share companies with dividend cover of at least 1.5 times

Although this guide is not foolproof as dividends are paid from cash, earnings per share forecasts can be helpful since they give a broad feel for how a business is expected to perform.

The high yields on offer from the housebuilding sector reflect growing market skepticism over this grouping's ability to sustain current levels of profitability.

Our favourite names from this collection include pub group **Marston's (MARS)** which recently enjoyed a timely boost from the World Cup.

We also reckon over-50s insurance and travel business **Saga (SAGA)** can recover from a difficult spell given its exposure to helpful demographic trends.

### BEST DIVIDEND GROWTH

Dividend growth signals a board's confidence in its charge's long-term cash generation capabilities. You can draw the conclusion that the board sees scope for value accretion in the business over the coming years and therefore you could see a rising share price plus a steady increase in dividends.

COMPANIES OFFERING BEST DIVIDEND GROWTH	
Company	10 year annualised dividend growth (%)
Randgold Resources (RRS)	37.8
Howden Joinery (HWDN)	36.3
Ashtead (AHT)	29.4
Experian (EXPN)	26
St James's Place (STJ)	25.9
Rightmove (RMV)	25.5
Micro Focus International (MCRO)	25.1
Dunelm (DNLM)	21.2
Moneysupermarket.com (MONY)	20.4
Domino's Pizza (DOM)	19.9

Source: SharePad, 3 August 2018, only includes FTSE All-Share companies ex-investment trusts

This table shows the companies with the best annualised growth in dividends during the last decade. Some of these businesses may struggle to generate such impressive income growth in the future, notably **Micro Focus (MCRO)** is struggling with its hard-to-swallow acquisition of HPE Software.

The outlook may be slightly brighter for **Moneysupermarket.com (MONY)**. The comparison site recently won the market's attention with the unveiling of a new joint venture aimed at delivering comparison services on mortgages (19 Jul).

The mortgage market is still largely conducted through the phone and on paper in the UK and as such is 'ripe for disruption' according to Moneysupermarket.

The 50-50 joint venture entitled Podium, sees the company team up with the founders of comparison tool developer HD Decisions, Mark Hawkins and Matt Denham. (TS)



## VOTE FOR THE BEST COLLECTIVES

After a successful first year the second iteration AJ Bell's Fund and Investment Trust (FIT) awards opens up to voting this month. And in 2018 there is a twist as there will be active and passive winning funds for all but one of the categories.

And while past performance is not a guide to the future, for the most part the 2017 winners have continued to display their credentials in 2018 as demonstrated by the one-year and three-year annualised performance shown in the table.

### How you can vote

To have your say on the funds which could follow them this year head to [fitawards.ajbell.co.uk](http://fitawards.ajbell.co.uk), you have until 31 August to make your voice heard. By voting you are entered into a prize draw for a seven-course meal for two at the three Michelin starred Restaurant Gordon Ramsey.

The FIT awards, sponsored by Invesco, Pictet Asset Management and UBS, cover 15 categories. To make the voting process accessible to investors an expert panel puts forwards their nominations in each category.

The panel can nominate any investment fund (including OEICs, unit trusts, investment trusts and exchange-traded funds). The panel is asked to look beyond simply investment performance, but also consider how well the fund/trust delivers what it sets out to achieve and how well positioned it is for the future.

### What happened last year?

In total, the inaugural awards saw 6,600 votes cast. The winners comprised eleven funds and four investment trusts. The most popular individual fund was the **Fundsmith Equity (B41YBW7)** fund, which won in the Global Equity category. First State Investments (which encompasses Stewart Investors) was the only fund group to win more than one award.

CATEGORIES	WINNERS	1 year performance	3 year annualised performance
UK Equity	Liontrust Special Situations Fund	13.6%	14.0%
European Equity	Jupiter European Fund	19.1%	16.1%
North American Equity	Schroder US Mid Cap Fund	9.3%	14.8%
Asian Equity	Stewart Investors Asia Pacific Leaders Fund	8.4%	11.5%
Japan Equity	Baillie Gifford Shin Nippon	40.5%	33.5%
Emerging Markets Equity	JP Morgan Emerging Markets	2.9%	16.2%
Global Equity	Fundsmith Equity Fund	17.2%	22.1%
UK Smaller Companies	Standard Life UK Smaller Companies Trust	21.5%	18.7%
Commodities/ Resources	BlackRock Gold and General Fund	-13.2%	16.3%
Technology/ Biotech	Polar Capital Global Technology Fund	28.9%	31.5%
Property	F&C Commercial Property Trust	3.4%	4.3%
Bonds	M&G Emerging Markets Bond Fund	0.2%	11.7%
Income	City of London Investment Trust	3.8%	6.2%
Ethical	Kames Ethical Cautious Managed Fund	1.9%	3.1%
Specialist	First State Global Listed Infrastructure Fund	-0.6%	13.3%

# 'Boring' Computacenter is too expensive to buy despite impressive total returns

In the right place but confusion over profit margins clouds attractions

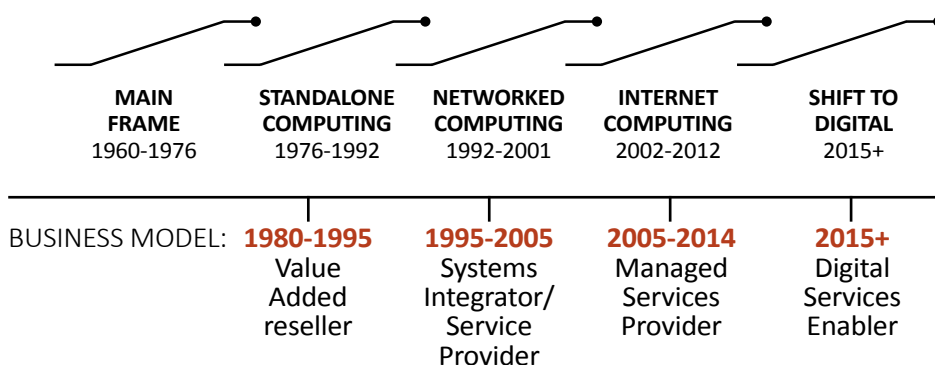
**T**his year **Computacenter (CCC)** celebrates 20 years on the London stock market. That's a long time for any stock but more recently it has refined its business to become a 'Boring' award winner in June 2018, the tongue-in-cheek gongs handed out by respected UK technology analyst Richard Holway.

The 'Boring' awards go to IT services businesses listed on the London stock market with an unbroken 10 year track record of earnings growth. Boring sounds detrimental, what it really implies is that the business is very reliable even if a little bit dull.

Computacenter is only the seventh company to win a 'Boring' award since their inception in 1993. Insurer **Admiral (ADM)**, outsourcing firm **Capita (CPI)** and **Sage (SGE)**, the accounting and enterprise software company are some of the previous winners (although the last two have since lost the accolade).

Computacenter is not a name that every investor will be familiar with, despite being a FTSE 250 stock for quite a while. It is a truly global IT enterprise operator whose 14,000-odd staff annually ship more than 25.5m products to 4.2m end users. After that the company provides services and support in 30 different languages.

## KEY DATES IN COMPUTERCENTRE HISTORY



## FULL SERVICE IT

The deluge of smartphones and tablets in use today, on top of the millions of desktop PCs still in use is more kit the company can supply a client, albeit on pretty skinny profit margins. This is the infrastructure side of the business.

Professional services is where Computacenter experts consult and advise clients on a multitude of best-in-class software and applications, and resell what's right for them.

We're talking about proper blue-chip venders, such as Microsoft, Oracle, Adobe, Cisco and Symantec. Managed services go further still, providing an entire outsourced IT solution.

This means clients don't require expensive inhouse IT teams, Computacenter runs the whole show remotely on

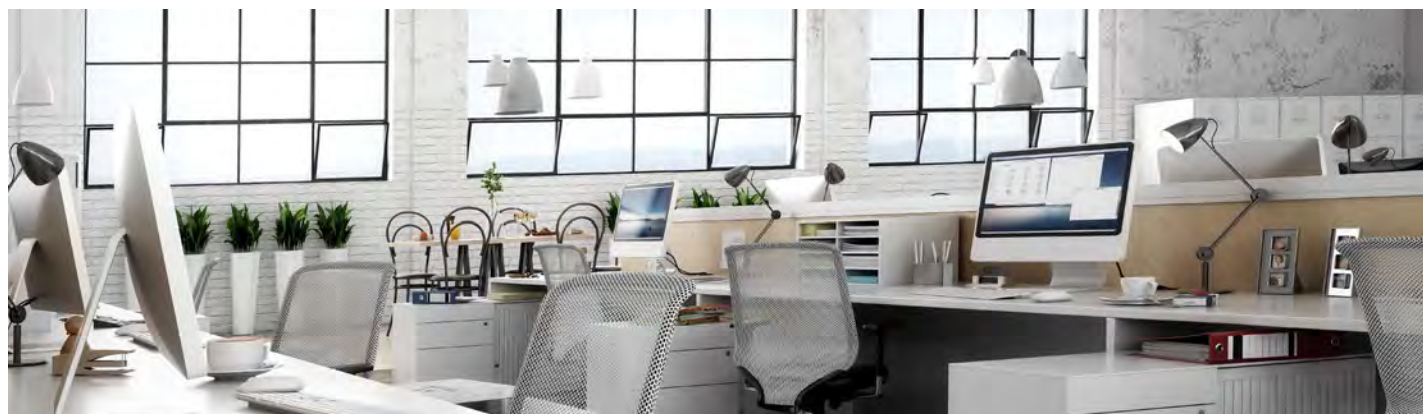
the client's behalf, with 24/7 support, advice and problem solving available and local software engineers available when needed.

What has made the shares a superb investment over the years is the company's steady growth, excellent cash flows and reliably rising dividends. Last year to 31 December 2017 it paid 26.1p per share to shareholders, a payout 17.6% higher than 2016's 22.2p.

Computacenter hates to sit on idle cash, so it hands surplus funds back to shareholders, either through strategic buybacks or special dividends. Since 2006 the company has paid out £249.4m worth of cash in bonus dividends, or 159.6p per share, according to the calculations of analysts at broker Stifel.

There's another £100m payout due later this year too,





which new investors can still presumably grab their slice since the payment details and dates have yet to be finalised.

Together it implies a rough 231.5p per share in one-off cash returns, which alone imply a 15% income yield on the current £15.66 share price. That share price has itself been a source of pleasing returns for longer-run shareholders. Since the worst of the financial crisis roughly 10 years ago the stock has increased almost 15-fold from late 2008 lows of 102p.

## LONG-HELD CRITICISM

Some investors still retain certain perceptions about Computacenter. One, that it is a fundamentally low margin business. Two, it is inherently cyclical and three, that the current valuation is too high.

The stock is currently trading on a 2018 price to earnings multiple of a little over 21, and only falls to 19.8 on 2019 earnings forecasts of 79.1p, based on Berenberg numbers.

What we know is that operating margins last year were 2.8%, which looks dreadful. Yet more than 70% of revenue comes from low margin hardware provision, it's just supplying IT boxes (devices and PCs) as part of its service.

Since Computacenter doesn't spell out operating profit by division it is difficult to work out what professional and managed services profitability is like.

Berenberg argues that investors can get round this issue by comparing operating profit to gross profit, which 'has continually improved from circa 10% in 2005 to about 21% in 2017.' This sounds a bit convoluted to *Shares*, we'd prefer the company to simply tell investors how operating profits breakdown more clearly.

The cyclical claim is also interesting, and we think the picture here is more encouraging. Just think how the world has embraced technology over the past 10 year or 20 years. Online shopping is a great example.

This trend will not reverse. This implies that increasingly businesses will be looking for

trusted technology partners to provide advice, access to applications, and the expertise to implement and manage IT tolls on their behalf.

That sounds very good for Computacenter. We anticipate that the company going forward will continue building out its opportunity base both geographically and by industry segment. Acquisitions may well form part of that strategy, it will probably have to if the company is to remain on top of technological shifts and development, such as internet of things, robotic automation, artificial intelligence, and others as they emerge.

While there is an interesting total returns story here, we cannot escape the view that on market forecasts and other reasonable assumptions, the shares look fully valued where they currently trade. (SF)

## COMPUTACENTER REVENUE ANALYSIS

REVENUE TYPE	2005 (£M)	2017 (£M)	ABSOLUTE GROWTH
Infrastructure/supply chain	1,770.4	2,636.2	49%
Professional services	114.2	319.2	180%
Managed services	400.6	838.0	109%
<b>Total</b>	<b>2,285.2</b>	<b>3,793.4</b>	<b>66%</b>

Source: Stifel, company accounts

# Achieving diversified exposure to Asia

We look at some favourite funds to access this growth region



**N**otwithstanding the growing tensions over trade sparked by a more belligerent White House, the economic grouping which includes India, China and Southeast Asia is expected to achieve growth of 6.5% in 2018 according to the International Monetary Fund.

This compares with the global average at 3.9% and the 2.4% anticipated for the world's advanced economies.

Investors looking to tap into this growth can do so through a fairly large collection of funds, exchange-traded funds and investment trusts.

Picking the right Asian fund is important as these countries have less mature capital markets and developed corporate cultures making it arguably

harder to avoid loss-making investments.

Making this process easier is AJ Bell's favourite funds list. Chosen by experts, these collectives are selected for income and medium to long-term growth with an emphasis on value, track record and quality fund management.

In this article we look at a trio of funds which make the cut, profiling each of them in turn.

## Invesco Perpetual Asian (BJ04DS3)

FUND SIZE: £2.36bn  
YIELD: 1.29%  
ANNUAL FEE: N/A  
TOP HOLDINGS:  
**JD.COM / SAMSUNG  
ELECTRONICS / BAIDU**

Fund manager William Lam

became the sole manager of **Invesco Perpetual Asian (BJ04DS3)** in May 2017 and uses a value approach, seeking out stocks he believes to be trading at below their fair value and holding them until the market realises their full potential and the price increases.

The manager is very experienced in this style of investing and it has produced good results over time, although investors should be aware that over short time periods this style may be out of favour and this could lead to underperformance.

Invesco Perpetual Asian aims to achieve capital growth in Asia and Australasia, excluding Japan, with top holdings including Chinese e-commerce giant JD.com, Samsung and Chinese internet search provider Baidu.



### Jupiter Asian Income (BZ2YMT7)

FUND SIZE: **£564.4m**

YIELD: **4%**

ANNUAL FEE: **0.75%**

TOP HOLDINGS:

**SANDS CHINA**

**/ SAMSUNG ELECTRONICS**

**/ HON HAI PRECISION INDUSTRY**

This may be a relatively new fund launch for Jupiter, but its manager Jason Pidcock is a seasoned practitioner of Asian income investing. Revered in fund management circles for his Asia investment nous, Pidcock's well-defined investment process involves seeking out high quality companies that can increase their dividends as they grow over time.

He has a fundamentals-based investment strategy for **Jupiter Asian Income (BZ2YMT7)**, backing companies which have scalable and sustainable business models, a commitment to sharing profits with shareholders through dividends and which trade at a

compelling valuation too. This is a strong offering for investors who wish to benefit from the region's long-term income and growth potential.

Pidcock has put money to work with the likes of gaming resorts developer and operator Sands China, Korean national champion Samsung Electronics and Taiwan-based computers-to-consumer electronics maker Hon Hai Precision. Research firm Square Mile says the portfolio of 40-to-50 companies 'will include stocks that have higher dividend yields than the market as well as lower yielding names with compelling growth prospects.

As well as reviewing the macroeconomic environment across the region, Pidcock has access to the expertise of Jupiter's wider emerging markets team and the broader skills of the global equity team. All this helps him to build a better picture of where a company is positioned in its market.'

### Pacific Leaders: (3387476)

FUND SIZE: **£8.3bn**

YIELD: **1.10%**

ANNUAL FEE: **0.85%**

TOP HOLDINGS:

**TATA CONSULTANCY SERVICES**

**/ MAHINDRA & MAHINDRA**

**/ CSL**

Long-term growth of capital is the mission of **Stewart Investors Asia Pacific Leaders (3387476)**, which invests in large and mid-cap companies incorporated, listed or conducting the bulk of their business in the Asia Pacific region (ex. Japan, but including Australia and New Zealand).

Managed by one of the most highly regarded teams investing in the region, with David Gait and Sashi Reddy the named co-managers of the £8.3bn OEIC, the investment process is underpinned by a strong quality mantra, while the companies it invests in generally have a market value of at least \$1bn.

Gait and Reddy's approach means the fund can sometimes lag in very strong markets, but it tends to be less volatile than other funds investing in the region and over the long term has produced excellent results for investors, boasting ten year annualised returns of 12.6%.

Leading portfolio positions include IT services titan Tata Consultancy Services, cars-to-tractors maker Mahindra & Mahindra and India financial outfit CSL. (JC)



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# Do I need an overseas pension scheme to retire abroad?

Looking at your retirement options if you're planning to emigrate

**D**espite an uncharacteristically warm summer in the UK, many hard-working Brits see spending their later years chasing the sun abroad as the ultimate retirement dream.

Unsurprisingly, moving to another country with different tax laws, a different currency and different social security system isn't without its complexities.

Layered on these complexities is Brexit uncertainty for anyone considering joining the estimated 1.3m UK citizens who according to the United Nations have already retired to the continent.

But what happens to your pensions when you move to another country?

## SHOULD I KEEP MY PENSION WHERE IT IS OR TRANSFER TO A 'QROPS'?

Private or workplace pensions can be paid to you wherever you decide to retire to. For simplicity - and potentially to benefit from lower charges - it's worth considering getting all your pots in one place first.

You should also speak to your pension scheme or provider before you move to check how they will pay your income. Some will only pay into a UK bank account, for example, while others might pay into an



overseas account if you ask.

There could also be extra charges to pay and, crucially, your pension income will be paid in pounds sterling – meaning you'll be exposed to the vagaries of currency fluctuations.

If you want to protect your income from such volatility you could move your pension into a Qualifying Recognised Overseas Pension Scheme, or 'QROPS'. If you transfer to an overseas scheme that is not a QROPS you'll be hit with a 55% unauthorised payment charge by HMRC.

Because a QROPS is established in the country you reside in, you'll get your pension in local currency and so avoid the uncertainty of exchange rate rises and falls. It may also be easier to keep track of the tax changes in the country you reside, rather than having to

constantly monitor the UK's rules and regulations.

However, it's worth noting that if you are under age 75 and transfer to a QROPS your fund will be tested against the UK lifetime allowance – currently set at £1.03 million. Any pension savings above this level will be hit with a charge of 25%.

You should also be aware that if you try to set up a QROPS in a country you are not residing in HMRC could hit you with a 25% penalty.

You will likely need to go through a regulated adviser if you want to open a QROPS. If you do so, make sure you know exactly what you'll be paying in costs and charges – both for the advice and investing through the new scheme.

**Tom Selby, senior analyst, AJ Bell**

# Track your investment process

Why the experts keep a detailed record of buy and sell decisions

**L**osing track of your investments is easily done, especially if you have several different pension pots and investment accounts to keep track of. To avoid this any investor should make a list of all of their holdings, the providers they are with and the login and account details for each.

But easier still than forgetting about an investment, is forgetting why you made an investment decision.

It's common to lose sight of why you have chosen to invest in a stock or fund – or even why you chose not to. When there is short-term noise or a share price falls suddenly, it's all too easy to panic and sell. Similarly, if a share price shoots up it's easy to get swept away in the euphoria and find yourself piling into an investment you had previously dismissed.

Keeping a record of stocks and funds you have looked at and the reasons you had for investing in them or not can help keep you focused on the long term, and it's a discipline even the experts stick to.

## MAKE A SPREADSHEET

Philip Webster, director of European Equities at BMO Global Asset Management, has been in the investment industry for 15 years but it was only three years ago he started using a spreadsheet to track his

“It's common to lose sight of why you have chosen to invest in a stock or fund – or even why you chose not to

investment thinking.

Webster uses the document like a diary to mark which stocks he has or hasn't bought, when he purchased the shares, added more or sold them, and how they have performed since. He also makes notes about why he made his decision and what was going on in stock markets and global politics at the time to add context, which helps when he comes to look back at his notes.

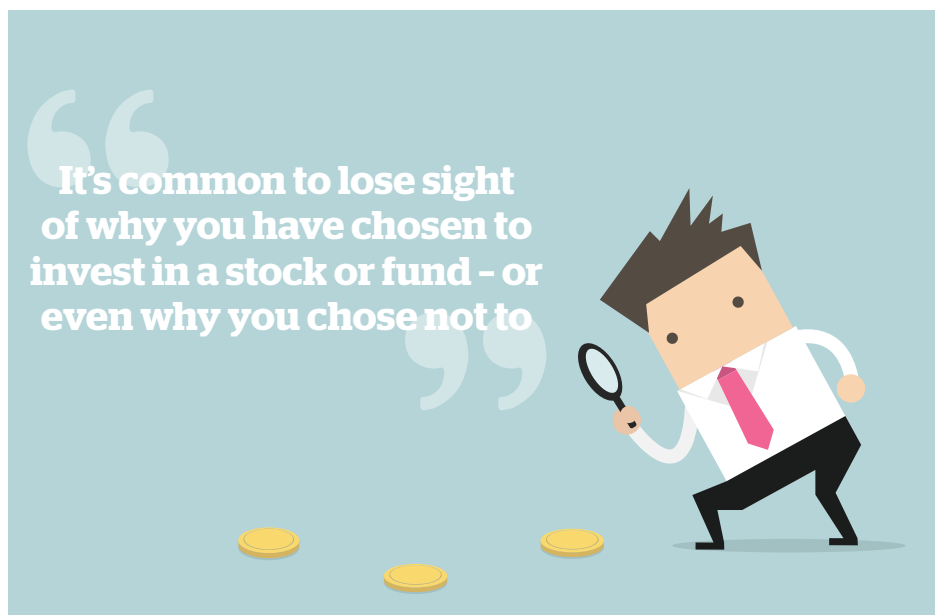
He says: 'I write down what it was about a stock that I liked or what I had spotted that I felt the market didn't understand. It can be difficult, even a few months after buying a stock, to remember what sparked that decision.'

After 12 months he looks at what has or hasn't worked out and uses that to make better decisions in the future.

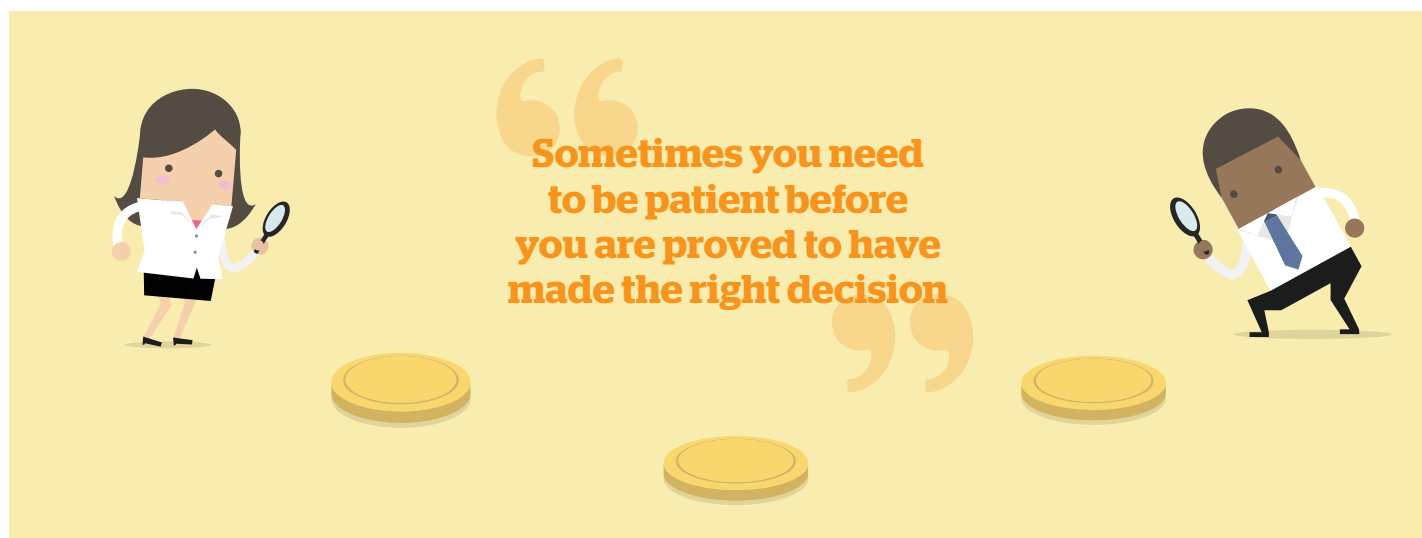
Andrew Koch, manager of the **L&G European Equity Income (BF18CC3)** fund, who also uses a spreadsheet to track his investments, adds: 'It takes discipline to fully maintain the spreadsheet but it's a crucial tool in tracking the decisions that have been taken. It also helps to safeguard against biases such as the tendency to misremember or adjust the reasons for a decision once further information comes to light afterwards.'

## WRITE IT DOWN

Webster says: 'As an industry we are very good at measuring outcomes and performance but not that great at measuring the steps it took to produce that outcome. I don't know why people don't do this more but it has become a fundamental part







of my toolbox for investing.'

Recently the fund manager sold shares in Adidas at a profit for €150 a share. But after he sold the share continued to climb, reaching a peak of €220 before easing off again.

He says: 'It seems like a stupid decision because the share price continue to rise, but I felt the shares looked expensive and I would prefer to sell before they fall sharply. Sometimes you need to be patient before you are proved to have made the right decision.'

### **DON'T TAKE ON TOO MUCH**

Investing is a full-time job, says Stephen Yiu, chief investment officer at Blue Whale Capital, and it's important not to bite off more than you can chew.

Out of 2,000 stocks across the globe, Yiu and his team invest in just 25 at a time. Any more than this, he insists, and it is impossible to properly keep track of them.

He says: 'It takes us three or four weeks just to assess one company. I think too often investors have an idea and invest a bit in it and then something else comes along and soon their

portfolio has 40 or 50 stocks in it. I don't think it's possible to track that many businesses properly.'

### **CHECK, CHECK AND CHECK AGAIN**

Yiu works on a quarterly cycle, starting in the month before a company reports its earnings. He looks at what has changed in the previous three months and how the stock fits into his investment portfolio and thesis. When the

**When the firm releases results, it's time to update forecasts for factors such as revenue growth, profit margins and share prices**

firm releases results, it's time to update forecasts for factors such as revenue growth, profit margins and share prices.

He considers aspects such as what the company's competitors are doing and what its products or services are, as well as keeping track of any news which could affect the company or its industry. The team then score the stock on a scale of one to five for a number of different areas to determine if they think the shares are cheap or expensive.

Shares in Paypal, one of his top 10 holdings, have suffered recently amid speculation that shoppers will abandon the payments provider in favour of alternatives such as Apple Pay or Google Pay. But using a scoring system and analysing the company so intensely means he is confident enough in the investment to dismiss these concerns – for now, at least.

He says: 'We don't think there will be a significant impact on the business but we need to monitor the situation closely to ensure something minor doesn't start to become a material issue. We are all about being disciplined and having a high conviction.' (HB)

# What does the interest rate rise mean for you?

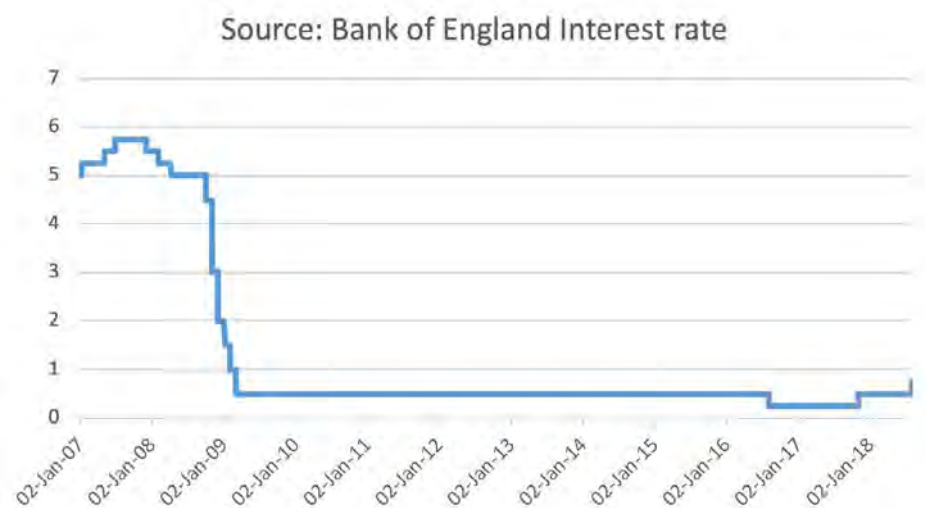
Explaining the various implications of the latest rate hike from the Bank of England

**I**nterest rates have risen for only the second time in the past decade, and are now the highest they've been since 2009 – when rates were slashed after the stock market crash.

The Bank of England's monetary policy committee decided to increase the so-called Bank Rate from 0.5% to 0.75%. The nine-strong committee voted unanimously on the move, saying that the UK's economy was now strong enough to withstand the hike.

The move had been anticipated ahead of the announcement, as inflation (the measure of the rise in prices in the UK) has been above the Bank of England's 2% target for a long time.

However, the Bank had been expected to increase the rate in May this year, but U-turned at the last minute after the Beast from the East cold weather at the start of the year hampered consumer spending – hitting the economy's growth.



Last week's move is the first time interest rates have been set at 0.75%, and follows a hike from 0.25% to 0.5% last November. But what does the rate hike mean for you and your finances?

## THE EFFECT ON SAVERS

Those with savings sitting in cash bank accounts may be jumping for joy, that interest rates will move off record lows and they will get higher returns on their money.

However, that excitement may be short lived as banks rarely pass on all of the rate hike to their customers.

Since the interest rate rise in November 2017 the average interest rate on easy-access savings accounts has only increased by 0.07 percentage points.

That's just 70p for every £1,000 you have saved, and is far from the 0.25 percentage point hike from the Bank of England. What's more, half of savings accounts didn't see any increase in interest.

However, it's likely that the best-buy accounts – so those offering the highest rates – will see an increase in rates. It means that savvy savers who are willing to dedicate a bit of time to hunting for the best deal can now find better deals.

The best-paying accounts



Inflation has been above the Bank of England's 2% target for a long time

are likely to be from newer providers, which are often run online only or via apps, rather than from the well-known high-street name banks.

The best way to find the top paying cash ISA accounts, or savings accounts is to go to websites such as Moneyfacts.co.uk or SavingsChampion.co.uk, which publish the top-paying accounts.

### **WHAT ABOUT MORTGAGE HOLDERS?**

The impact on those with mortgages depends on the type of mortgage that you're on. There are around 3.5m people with a variable or tracker rate mortgage, and they will see their interest rate, and so monthly costs, increase immediately – on the same day as the hike many people had already had messages from their mortgage companies warning them their costs would increase.

For someone with a £200,000 mortgage, the 0.25 percentage point increase in interest rates will cost around £300 extra a

year. Meanwhile, someone with a £350,000 mortgage will see costs increase by around £500 a year. You can check based on your personal circumstances either by contacting your mortgage company, or using a rate rise calculator here: [www.landc.co.uk/calculators/mortgage-interest-rate-calculator/](http://www.landc.co.uk/calculators/mortgage-interest-rate-calculator/)

However, more people have fixed-rate mortgages, and they won't see any increase in their costs. These mortgages have the rate determined for a set period, usually three or five years, regardless of what the Bank of England does to rates. However, it means that when these homeowners' fixed rate deals end the new deals offered to them will likely be more expensive.

Some people attempted to get ahead of the interest rate rise and lock-in a fixed rate deal to avoid paying the higher costs. However, banks and building societies are savvy and many had already increased their mortgage rates in anticipation of the Bank of England's move.

The biggest change you can make to cut your mortgage costs is to ensure that you're not on your lender's Standard Variable Rate. These are the least competitive rates offered by mortgage companies, and is often what you will default onto once a fixed rate deal ends. They are often dramatically higher than other rates on the market.

### **WHAT ABOUT OTHER PEOPLE IN DEBT?**

There are a large number of people in the UK who are in debt, and we are more of a nation of borrowers than savers. Research from the Office for National Statistics found that in 2017 households on average spent £900 a year more than they earn – the highest figure on record.

Thanks to the interest rate rise, the cost of debt will increase, which will hurt those who are already in debt. It means that the rates on loans, credit cards and other credit will increase.

**Laura Suter, personal finance analyst, AJ Bell**

**“Banks and building societies are savvy and many had already increased their mortgage rates in anticipation of the Bank of England's move”**





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- **AIM**
- **Fund**
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### Half year results

**14 Aug:** Antofagasta, eSure, Jackpotjoy. **15 Aug:** Admiral, Balfour Beatty, Hikma Pharmaceuticals, Hochschild Mining. **16 Aug:** Kaz Minerals, Marshalls.

### Final results:

**16 Aug:** Rank Group.

### Trading Statements:

**16 Aug:** Kingfisher.

## 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.

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