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NEWS Is it toast for Unilever's Marmite brand as it shifts focus away from food?

Contents


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ASOS to leave AIM: why this matters to investors

The posterchild for the junior market is finally switching its listing to London's Main Market

One of AIM's biggest success stories is finally packing its bags and moving to London's Main Market. Fashion retailer **ASOS (ASC:AIM)** will switch markets by the end of February and this event could potentially see a few other businesses to do the same.

AIM was set up as a market for young companies to access capital markets and tap up investors for cash to help them grow, as well as use their shares to help pay for acquisitions.

ASOS originally set out to sell copycat clothes to ones worn by celebrities on the TV or in films, as per its full name As Seen On Screen. Today it is an established international online retailer and from an investment perspective would be better off sitting alongside similarly more mature businesses on London's Main Market.

AIM is still associated with higher-risk, more speculative companies – that's not somewhere you would expect to see a business such as ASOS which made nearly £200 million pre-tax profit in its last financial year. Distancing itself from AIM and the plethora of loss-making biotech and natural resources companies is long overdue.

Shareholders could benefit from ASOS moving to the Main Market as its premium listing category will see it qualify for the FTSE 250 index later this year. Index funds tracking the performance of the FTSE 250 will become active buyers of the stock. This phenomenon didn't happen on AIM because traditionally there haven't been specific index funds tracking the junior market.

Years ago, a lot of fund managers would not look at AIM for stock opportunities as many would have had a mandate to stick to the Main Market. That approach has long disappeared and AIM now sits comfortably alongside Main Market stocks when fund managers do their research, with most UK-focused professional stock pickers saying the listing venue is irrelevant to them, it's each company's fundamentals or opportunities that really matter.

Domino's Pizza (DOM), the London-listed entity which owns the UK and Ireland franchise of the fast-food brand, and mining group **Petra Diamonds (PDL)** are two examples of companies that moved from AIM to the Main Market as they became much bigger businesses.

They both went on to join the prestigious FTSE 250 index of mid-cap stocks, although Petra has had a run of bad luck in recent years due to debt pressures and volatile commodity prices.

At the time of writing, ASOS is the sixth biggest stock on AIM after **Hutchmed (HCM:AIM)**, **Abcam (ABC:AIM)**, **Fevertree (FEVR:AIM)**, **Jet2 (JET2:AIM)** and **RWS (RWS:AIM)**. Those five other companies could easily put forward an argument for moving to the Main Market given how they've matured as businesses, and ASOS's actions might even stir up the debate in boardrooms about the benefits of moving market.

The more acquisitive companies such as RWS might see merit in staying on AIM where rules are laxer than the Main Market and deals can be done faster as most don't require shareholder approval. Equally, many shareholders would welcome the greater transparency that comes with being a Main Market company.

Fundamentally leaving AIM could be a good move for ASOS, yet it still needs to find ways to revive stronger sales growth if it is to truly win back the market's favour.

Unilever's food arm could be sold amid shift in strategy

Brands including Marmite could fetch top dollar

Unilever (ULVR) has had three bids for **GlaxoSmithKline's (GSK)** majority-controlled consumer healthcare unit knocked back, the latest offer pitched a bumper £50 billion.

Investors are concerned the Dove soap-to-Marmite maker may stretch its balance sheet by overpaying for the Glaxo's consumer goods business, a joint venture with Pfizer that includes the Sensodyne, Panadol and Nicorette brands.

An overlooked possibility is that Unilever could sell its cash-generative foods and refreshment business to raise cash to fund the deal in a move which might upset longstanding shareholders.

The Anglo-Dutch giant said it plans to 'materially' expand its presence in higher growth health, beauty and hygiene products, categories offering 'significant opportunities to drive growth through investment and innovation, and by leveraging Unilever's strong presence in emerging markets'.

Conspicuous by its absence was any mention of foods and refreshment, where brands span Magnum, Knorr and Hellmann's, hinting Unilever could be willing to sell parts or all of the division to help fund the purchase of Glaxo's consumer goods arm or other acquisitions in the health, beauty and hygiene markets.

Food asset sales could draw the ire of certain shareholders at a moment when confidence in Unilever and CEO Alan Jope is low. It is worth noting that food and refreshment grew 3% organically in the third quarter, ahead of the 2.6% growth generated by the beauty and personal care arm, and includes some of Unilever's most attractive categories such as ice cream and cooking ingredients.

FAR FROM A RADICAL UPGRADE

'GSK Consumer Healthcare would be a strong strategic fit,' insists Unilever, arguing the acquisition 'would create scale and a growth platform for the combined portfolio in the US, China, and India, with further opportunities in other emerging markets.'

Berenberg believes an offer of 'at least £55 billion would be required to secure the asset'. And assuming a £55 billion takeout price with 35% equity funding, the broker estimates a punchy valuation of 21.8 times EBITDA (earnings before interest, tax, depreciation and amortisation) which would increase Unilever's net debt/EBITDA ratio to 4.3 times. Companies traditionally like to keep this ratio below 3 times.

Berenberg cautions Unilever may need to pay an even higher multiple to secure a deal, and that's before any competing bids, potentially from Procter & Gamble or private equity, and it doubts a transaction would provide the organic growth lift needed to drive a re-rating of Unilever's shares.

'For 12 of the last 20 quarters, Consumer Healthcare's organic growth has been below that of Unilever's and has averaged just over 1% for the period, compared to 3% for Unilever,' notes Berenberg.

'GSK believes the unit can grow at 4%-to-6% over the mid-term (compared to 3%-to-5% for Unilever) – far from a radical upgrade.' [JC]

Oil hitting $100 could take the FTSE 100 to new record highs

Inflationary pressures are building as crude markets hit their highest level since 2015

With Brent crude oil at seven-and-a-half-year highs above $88 per barrel there is mounting speculation that prices could hit $100 for the first time since 2014.

The FTSE 100 is also within striking distance of the 7,903.50 intra-day high attained on 22 May 2018. Oil producers are among the big stocks in the FTSE 100.

Oil is moving higher as concerns over the impact on demand of the Omicron variant have faded, as well as supply disruption. An escalation of hostilities on the border between Russia and Ukraine could act as a further jolt to the crude market, only adding to the current inflationary pressures.

These in turn could be positive for the FTSE 100 given its make-up. AJ Bell investment director Russ Mould says: 'The UK stock market may not be a bad place to be if inflation stays entrenched and confounds any efforts by central banks to rein it in.

'This is because the leading gainers (year-to-date) operate in industries where demand is fairly price inelastic, such as energy and tobacco; where higher interest rates and steeper yield curves may help profit margins and earnings, at least up to a point, such as banks and insurers; or they own real assets where supply is expensive to build and where that supply is growing more slowly relative to money supply, such as miners.' [TS]

DISCLAIMER: AJ Bell is the publisher of Shares magazine. The author (Tom Sieber) and editor (Daniel Coatsworth) of this article own shares in AJ Bell.

Wage inflation could hurt many shares

Historically, periods of slow growth and inflation haven't been kind to stock and bond investors

INDEX HEAVYWEIGHT BANK JP Morgan kicked off the US quarterly reporting season on 14 January and managed to beat analysts' estimates for revenue and profit, but the shares fell 5% on the day.

Part of the reason was that going into the results, bank shares had already clocked-up big gains amidst a sharp rotation into value shares at the expense of growth.

This reflected substantial increases in US 10-year bond yields as markets started to price in earlier and more aggressive rate hikes by the Federal Reserve to counter rising inflation fears. Rising interest rates are positive for bank's interest margins.

The fall in JP Morgan's shares related to rising personnel costs.

The Fed has consistently highlighted the risk of wage inflation becoming entrenched which has the potential to drive future inflation expectations in an escalating upward spiral.

Bank of America outlines believes 2022 will be marked by a 'rates shock' as the Fed fights rising inflation.

The bank prefers deep value sectors like energy, oil and real assets which offer inflation protection as well as defensives and high-quality shares. [MGam]

Why China has bucked a global trend by cutting rates

Meanwhile technology names like Alibaba and Tencent move off their lows despite slowing growth

In an attempt to revitalise the economy, the People's Bank of China has reduced the rate at which it provides one-year loans to banks by 10 basis points.

Critically this is the first time that China's central bank has cut its interest rate in nearly two years, and contrasts with the approach taken by other major central banks around the world.

The US Federal Reserve has indicated that it plans to increase its interest rate three times this year. Closer to home, the Bank of England recently raised interest rates for the first time in three years, in response to mounting inflationary pressures.

Official data released on 17 January revealed that Chinese gross domestic product rose 4% last quarter from a year earlier. This marked the weakest level since early 2020 with concern over a property market slowdown and the impact of restrictions brought in to contain the spread of Omicron.

Despite this soggy macro-economic backdrop Chinese stocks including Alibaba, Baidu and JD.com are bouncing off their lows after a big slump in 2021, given less demanding valuations and an apparent easing of regulatory pressure after last year's crackdown on the technology sector.

Alibaba is up 21% since rebounding from its low on 29 December, and Tencent is up 10% from its own nadir around the turn of the year. [MGar]

The trusts trading well below their 10-year average valuation

The average discount across all closed-ended funds has narrowed significantly over the last decade

THE INCREASED POPULARITY of investment trusts is reflected in a pronounced narrowing of the average discount to net asset value (the value of a trust's investments minus any liabilities) across all trusts over the past decade.

Data from the Association of Investment Companies and Morningstar shows that as at 31 December 2021, and excluding venture capital trusts and alternative vehicles, trusts traded at a weighted average discount to net asset value of 4.1% compared with 11.1% in 2011.

Among the trusts trading at odds with their average premium or discount to NAV over the last decade are **Lindsell Train (LTI)** – the Nick Train steered fund – trading at a premium of just 5.8% compared with a 10-year average of more than 20%. This reflects a shift in investor sentiment towards the quality defensive stocks which dominate its portfolio and a recent dip in performance.

Income-driven global trust **Murray International (MYI)** was trading at a 6.8% discount at the end of 2021 compared with an average premium of 2.6% over 10 years.

And another dividends-focused vehicle, **Abrdn Asian Income Fund (AAIF)** finished 2021 on a 12.7% discount compared with a 10-year average of 3.8%. [TS]

Billions wiped off the value of construction stocks

Insulation group Kingspan loses €2 billion in value alone

Shares in Britain's biggest housebuilding firms lost billions in value in the week to 14 January after the Government announced it would ask them to meet the cost of rectifying safety issues on high-rise buildings in the wake of the Grenfell tragedy.

The cost of the work could be up to £4 billion, and the message from Whitehall was if the firms didn't comply willingly the Government could take legal action.

Between them, the six biggest builders **Barratt Developments (BDEV)**, **Bellway (BWY)**, **Berkeley (BKG)**, **Persimmon (PSN)**, **Redrow (RDW)** and **Taylor Wimpey (TW.)** saw the value of their shares slide by £2.9 billion over five days.

Taylor Wimpey, which released a trading update on 17 January, said it had already provisioned what it thought was 'a reasonable estimate' of the costs, while smaller rival **Vistry (VTY)**, which saw its shares lose nearly £200 million over the same timeframe, said it would 'work directly with the Government to deliver a solution'.

Irish-based materials firm **Kingspan (KGP)**, some of whose products have been used to clad high-rise buildings, was even worse hit as its share price fell 10%, wiping €1.8 billion off its market value.

There was little respite for shareholders on 17 January either, with Kingspan stock losing another 2.6% or more than €400 million in value. [IC]

THG's shares take another hit on growth and margin setback

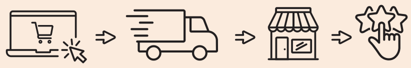
E-commerce play slides to new lows as latest trading update delivers more bad news

ONLINE COSMETICS AND health products seller **THG (THG)** continued to suffer large share price declines, with investors giving the thumbs down to its latest trading update (18 Jan).

At face value, revenue growth of 38% for 2021 looked impressive. However, markets are forward-looking and guidance for growth to slow to between 22% and 25% in 2022 didn't go down well. The company also said margins for 2021 would come in slightly below expectations.

At 169.7p, THG trades well below its all-time high of 837p hit in January 2021 and the 500p price at which it joined the stock market.

THG seems to have found it difficult to adjust to the demands of being a public company, including managing expectations effectively and getting its corporate governance on point.



In November 2021 the company endured a disastrous investor day centred on its Ingenuity platform, a logistics and e-commerce platform sold to third parties which had generated much of the excitement around the group.

The market was apparently frustrated by a lack of detail and clarity on Ingenuity, with founder and CEO Matthew Moulding's response to hand over a conspiracy dossier to the Financial Conduct Authority alleging hedge funds and stockbrokers colluded to drive down the share price.

Against this backdrop it would not be a surprise to see Moulding follow through on hints he might take the business private. [TS]

The UK trust with a history of beating the FTSE 250

Schroder UK Mid Cap is a solid way to get exposure to a range of companies going places

Investors spooked by the recent sell-off in technology stocks need to understand that some parts of the market are still doing very well – this is not an all-sector global market slump.

While the US tech-heavy Nasdaq index is down about 6% year to date, we've seen the FTSE 350 oil and gas sector rise by nearly 17% over the same timeframe, the UK's banking sector is up by 15% and the tobacco sector has increased by 13% in value since the start of January.

There has been a market rotation away from expensive tech stocks where the big corporate profits will be made many years from now, with investors now preferring cheaper stocks where good profits are already being made today, known as value stocks.

The UK is one of the best places to find value stocks because the market in general trades on a lower valuation than places such as the US. Not only can you find more attractively valued stocks on the London Stock Exchange, often you'll find further bargains in the investment trust space where shares can sometimes trade below the value of a company's assets.

Investment trust **Schroder UK Mid Cap Fund (SCP)** is a great example as its shares trade at an 8.3% discount to net asset value. Effectively that means you can buy a portfolio of UK stocks for less than you would pay to buy them individually.

The scale of the discount is quite surprising when you consider the Schroder trust invests in liquid stocks, focusing on the FTSE 250 index of mid-cap names. Its track record is also very good, with the trust's total return (share price gains/losses and dividends) outperforming the FTSE 250 index on a one, three, five and 10-year basis.

SCHRODER UK MID CAP FUND ↗ BUY
(SCP) 684p

Market value: £242 million

BEST IDEAS

Jean Roche took over as lead manager of the trust from veteran fund manager Andy Brough in January 2021. The latter continues to act as co-manager.

Schroder UK Mid Cap Fund - a history of outperformance

	1 year	3 years	5 years	10 years
Schroder UK Mid Cap	20.7%	52.6%	78.8%	280.1%
FTSE 250	13.2%	32.2%	41.8%	179.8%

Table: Shares magazine

Source: Fe Fundinfo, 18 January 2022. Total return in GBP • Created with Datawrapper

In a presentation on Schroders' website, she says: 'We are active investors aiming to invest in around 50 stocks, which represent the best mid-cap ideas. We aim to invest in these companies at the sweet spot in their growth path'.

Roche believes the mid cap index acts as an incubator. In essence, companies in the FTSE 250 in general will have already developed a strong market position. As they continue to grow the most successful eventually compete for a place in the FTSE 100 index. FTSE 250 stocks typically display faster growth rates than those in the FTSE 100.

INVESTMENT PROCESS

Roche and Brough look for well-managed resilient companies with a leadership team driving a long-term vision capable of generating solid cash flow returns.

Given that big winners are 'often born out of innovation' Roche is attracted to companies that are challenging the status quo and recognises that the FTSE 250 has a strong record of containing businesses which have created successful disruption.

Examples include **Auto Trader (AUTO)** and **Rightmove (RMV)** which have fundamentally changed the way their sectors operate, and both stocks have gone on to join the FTSE 100 as they continued to grow.

Assessing the sustainability of growth over the long term is another key element in the investment process. This involves examining the scope of the sector to grow and the potential threat from incumbents.

Roche also likes companies which can react to and capitalise from change. In particular, she advocates a corporate culture that enables fresh and innovative thinking.

M&A SWEETSPOT

The renewed demand for UK-quoted companies from large and experienced buyers is noteworthy. Mid cap companies have been at the centre of takeover interest from private equity firms and there is a sense that the M&A spree we saw last year will continue into 2022.

According to Roche, 'It's always helpful to observe what the corporate and private equity sectors are doing since we share their long-term mentality. It seems to me these bidders are currently thinking UK shares are cheap.'

WHAT'S IN THE PORTFOLIO?

Investors buying shares in Schroder UK Mid Cap are getting exposure to various sectors including industrials, consumer discretionary, financials, real estate and healthcare.

At the end of November, key holdings included **Diploma (DPLM)** which distributes parts to help keep factories running smoothly as well as products for the healthcare industry. Cushions to curtains retailer **Dunelm (DNLM)** is also a big position for the trust, and on 12 January it said full-year pre-tax profit would be materially ahead of expectations.

Investors shouldn't expect everything in the portfolio to be doing well at the same time, with key holding **Games Workshop (GAW)** among the stocks to have disappointed the market in recent months. Yet that's the beauty of investment trusts – they can provide instant diversification, so when a few holdings aren't doing well, there are hopefully lots of other holdings to cushion this blow and drive overall performance.

Admittedly some of the holdings in the trust are tech companies and their shares are likely to have been caught up in the sector sell-off this year. These include **Computacenter (CCC)** which is a highly profitable business today, yet its shares have been dragged down by investors selling anything to do with technology.

Furthermore, some of the portfolio holdings are not necessarily cheap, so this isn't a pure value-led investment trust in the way you might describe **Temple Bar Investment Trust (TMPL)** or **Aurora Investment Trust (ARR)**, for example.

Even though Schroder UK Mid Cap pays dividends, investors should consider any income as a bonus rather than a core reason to own the shares. In the year to 30 September 2021, the trust paid 14.8p in dividends which equates to a 2.2% yield. [MGar]

Schroder UK Mid Cap Trust

Source: Refinitiv • Created with Datawrapper

FDM has the solution for IT staff shortages

The FTSE 250 firm has a big opportunity underpinned by its 'Mountie' model

We know that good staff are hard to come by in many industries at the moment and the squeeze on technology talent predates the pandemic. This backcloth is great for **FDM (FDM)** and its army of IT experts, called 'Mounties'.

Run by the founding husband and wife team of Rod and Sheila Flavell, the chief executive and chief operating officer respectively, clients mainly come from the banking, insurance and finance world, although this is expanding as new technology disrupts almost every industry, from energy, media and government departments.

Key to its success is FDM's Mounties model where technical IT consultants are drawn from university graduates, people returning to work and, importantly ex-forces personnel, where officers with great people and technical skills are looking for a new career. All are trained for free by FDM in return for at least two years of full-time service.

Installed in a client's operations, FDM's Mounties provide a wide range of technical and business functions, such as business development, IT testing, project management, data and business analysis, and product support. They are also increasingly being trained in areas such as cloud applications, robotic process automation and artificial intelligence.

With still almost half of its customer base in the UK and Ireland, FDM has huge opportunities to grow both at home and overseas. It already has substantial operations in the North America with smaller but fast-growing set-ups in Europe, the Middle East and Asia-Pacific.

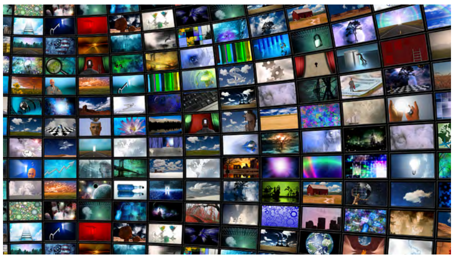
The company hasn't said much to the market since half year results in July 2021, where the company bore the unsurprising effects of lockdowns.

Yet this masked excellent management of the Covid outbreak, allowing the company to emerge with rising demand, ramped-up recruitment and training and high Mountie utilisation rates of 96.9%.

Since those results the stock has largely tracked sideways, but that's set to change, we believe. A 2021 full year trading update is expected in the coming week or two, and we think the news will be good, with proof of a better second half performance likely to be coupled with strong demand drivers from widespread digital transformation and typically strong cash flows.

Analysts are forecasting roughly £45 million of 2021 pre-tax profit. Earnings growth for 2022 is anticipated in the low-to-mid teens but there is scope for upgrades to filter through this year.

The 2022 price to earnings multiple stands at around 34. FDM's track record of operational excellence could see more investors prepared to pay such a premium rating if the next trading update surpasses expectations. However, investors should appreciate there is no guarantee it will issue positive news. We like the stock for its longer term potential, not simply to trade it around news updates. [SF]



FDM BUY
(FDM) £11.88

Market cap: £1.28 billion

FDM Group

Source: Refinitiv • Created with Datawrapper

MARKS & SPENCER
(MKS) 221p

Gain to date: 23.8%
Original entry point:
Buy at 178.5p, 2 September 2021

SHARES IN HIGH street stalwart **Marks & Spencer (MKS)** have further to rise as it continues to demonstrate strong progress in transforming the business.

It delivered a better trading performance over the third quarter and especially over the Christmas period than we or the analyst community dared to think possible.

For the 12 weeks to 1 January, sales climbed to £3.27 billion, an 18.5% increase on the previous year and impressively 8.6% above the same period in 2019.

The star performer, which few people foresaw, was clothing and home rather than food, with UK sales jumping 37.7% on the previous year and 3.2% on 2019 to top £1 billion.

On a two-year basis, online revenue from the clothing and home business was up more than 50% which suggests that the firm has finally got its web offering right.

For analysts at Numis, the two-year group sales growth rate was 1% above their forecast and 2% above the consensus with every division beating expectations including the international business, for so long the poor relation.

Management says it is 'more confident' of its ability to hit its increased pre-tax earnings guidance of around £500m, and barring further lockdowns or restrictions now expects to deliver at least that amount.

Numis expects consensus forecasts to rise 'modestly' from £515 million to around £525 million, but on the quiet still believes the group can hits its high-end estimate of £560 million if the top-line momentum shown in the fourth quarter continues over the final three months of the year.

Which begs the question, why did the shares fall nearly 8% on the day of the results? To begin with, the stock had already enjoyed a sensational move up after the half-year trading update in

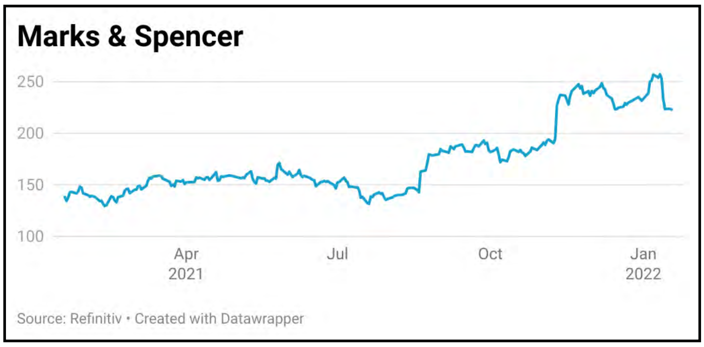
November so it was inevitable some 'loose' holders of the stock would cash in whatever happened.

Second, the fact guidance was almost left unchanged disappointed the momentum crowd, who were expecting another big upside catalyst for the shares.

Our view is their loss is our gain. As chief executive Steve Rowe claimed, the results demonstrate just how much the firm has improved its product offering and its value proposition in the last year or so.

Clothing and home may have been the big surprise, but food sales were also outstanding with M&S racking up the fastest growth of any store-based food retailer during the quarter and its highest ever Christmas till roll.

'I remain encouraged that our transformation plan is now driving performance' says Rowe, and we concur. There are still tough times to come, particularly as consumers battle rising energy bills, but Marks finally looks to have got its positioning right.



SHARES SAYS:
Long-term investors should buy the sell-off before the next re-rating phase. [IC]

CENTRALNIC

(CNIC:AIM) 137.7p

Loss to date: 3.7%

Original entry point:

Buy at 143p, 25 November 2021

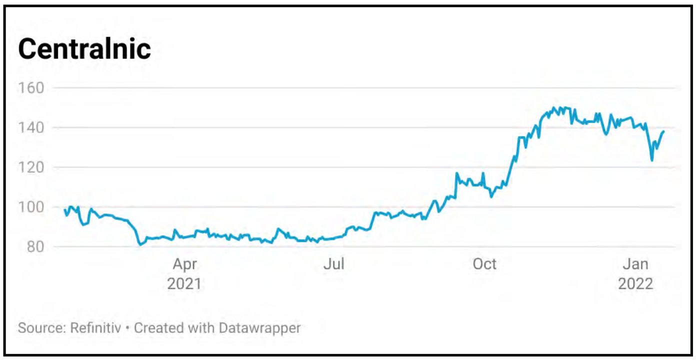
THIS WEEK'S TRADING update (17 January 2022) appears to have re-energised investors in **CentralNic (CNIC:AIM)** after the en masse sell-off in growth stocks since the New Year, with the share price rallying from the 123.5p it hit on 11 January.

No surprise there, the company reported roughly 60% year-on-year organic growth in the fourth quarter of 2021 and circa 37% organic growth for the entire year.

That's enough to turn anyone's head and analysts at investment Berenberg confirmed their fourth upgrade to 2021 numbers.

The significant acceleration in cash generation in the year has also allowed the business to de-leverage its acquisition spree debt quickly, going from around 2.8-times net debt to earnings before interest, tax, depreciation and amortisation at the end of 2020 to below 1.7-times at the end of last year.

To re-cap CentralNic provides the tools businesses need to thrive online, offering website registry services, distribution, strategic consultancy and marketing analytics for various types of internet domain names from a single platform.



SHARES SAYS:
Remains a stock that growth investors should be buying. [SF]

FRONTIER DEVELOPMENTS

(FDEV:AIM) £13.30

Loss to date: 41.3%

Original entry point:

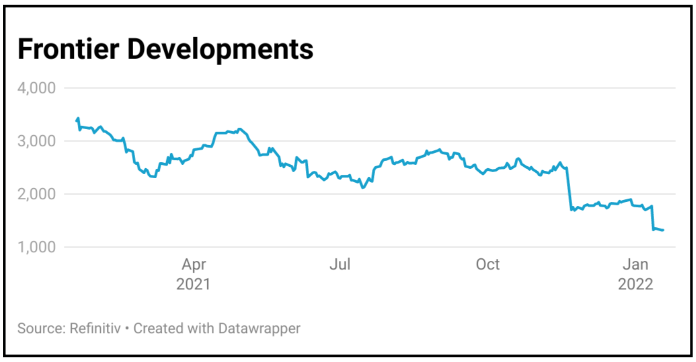
Buy at £22.65, 22 July 2021

SHARES IN FANTASY world video game developer and publisher **Frontier Developments (FDEV:AIM)** are trading below pre-pandemic levels despite demand rising for games during the pandemic and the business developing a much larger pipeline of titles.

The latest share price fall followed a downgrade to 2022 and 2023 revenue guidance based on slippage of new game releases and disappointing initial sales of *Jurassic World Evolution 2*. Extra staff costs have contributed to reduced operating margins, now seen as being mid-single digit in 2022 before climbing back to around 20% in 2024.

We believe the problem hobbling the share price has been management's overly ambitious guidance rather than fundamental development of the business. We hope lessons have been learned and guidance sufficiently rebased to achievable levels.

The outlook remains positive. The release of *Jurassic World Evolution 2* has deepened its relationship with Universal Studios; it owns the exclusive rights to PC and console for the Formula One manager games, and exclusive PC, console and mobile rights to the *Warhammer Age of Sigma* strategy game.



SHARES SAYS:
While we are disappointed by the performance of the shares, the potential of the business has not diminished. Still a buy. [MGam]

CURRYS
(CURY) 103.3p

Gain to date: 19.9%
Original entry point:
Buy at 129p, 15 July 2021

WE'RE CALLING TIME on our trade on electrical goods retailer **Currys (CURY)** after a string of disappointing news. The company is struggling and the market doesn't seem convinced the business is going places.

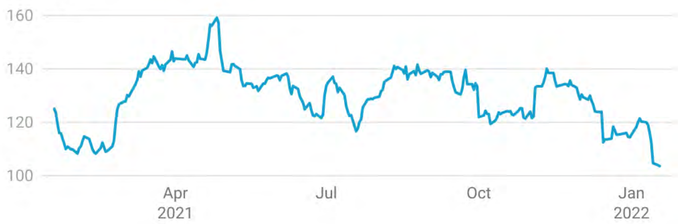
The shares have recently taken a hit after the laptops-to-smartphones seller lowered full year pre-tax profit guidance from £160 million to £155 million following what it described as a 'challenging Christmas with uneven customer demand and supply disruption'.

The downgrade wasn't too much of a surprise, Currys had previously warned of weaker demand in the run-up to Christmas and that supply chain snarl-ups were impacting availability, though we are disappointed nevertheless that the retailer's expected recovery has proved to be another false dawn.

The near-term risks to UK consumer spending are significant, even without any further Covid-related disruption.

Many people have spent significant sums on new laptops, smart TVs and smartphones during the pandemic. This kit can comfortably last them for many years without the need to upgrade, which suggests Currys could struggle to deliver meaningful growth in the months ahead.

Currys



Source: Refinitiv • Created with Datawrapper

SHARES SAYS: ↘
Exit Currys and seek out opportunities elsewhere. [JC]

When 1.4 billion consumers buy local, that's a global opportunity

FIDELITY CHINA SPECIAL SITUATIONS PLC

If you want to take full advantage of the incredible growth of China's middle classes and a seismic shift towards domestic consumption, you need real on-the-ground expertise.

As the UK's largest China investment trust, we can capitalise on an extensive, locally based analyst team to make site visits and attend company meetings. This helps us find the opportunities that make the most of the immense shifts in local consumer demand.

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

The Trust can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations.

PAST PERFORMANCE

	Nov 16 - Nov 17	Nov 17 - Nov 18	Nov 18 - Nov 19	Nov 19 - Nov 20	Nov 20 - Nov 21
Net Asset Value	**26.2%**	**-12.0%**	**5.1%**	**61.7%**	**-9.4%**
Share Price	**30.3%**	**-13.2%**	**10.2%**	**77.4%**	**-16.5%**
MSCI China Index	**33.8%**	**-6.6%**	**5.6%**	**32.3%**	**-16.2%**

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 30.11.21, bid-bid, net income reinvested.
 The MSCI China Index is a comparative index of the investment trust.

To find out more, visit fidelity.co.uk/china, scan the QR code or speak to your adviser.

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Source for consumers: Worldometer (www.Worldometers.info) as at 09.12.2021. The latest annual reports and factsheets can be obtained from our website at **www.fidelity.co.uk/its** or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. The Alternative Investment Fund Manager (AIFM) of Fidelity Investment Trusts is FIL Investment Services (UK) Limited. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM1221/370084/SSO/0322 .

Cheap US stocks

How to find them and six to buy now

By **The Shares Team**

Last year was another good period for US stock markets, leading to decent returns and making the region a must-have for investors around the world.

A lot has been said about valuations being rich for US stocks following years of strong returns and that may be true in parts of the market. Yet often overlooked is the fact that you can still find US-listed companies at decent valuations if you dig deep, and that's what we do in this article.

The S&P 500 index of US stocks gained 26.9% last year, recording its third best annual performance of the past two decades, pushing the forward price to earnings multiple to the current 21.25, above recent decade averages of about 18.

The cyclically adjusted PE ratio, which uses average net income of the previous 10 years, adjusted for inflation, rather than forecast earnings, was around 38 at end of 2021. For context, the FTSE 100 CAPE was 15.6 at the end of 2021, according to Siblis Research.

WHY IS THE US MARKET MORE EXPENSIVE?

The S&P 500 has typically traded at a premium to the UK and other major equity markets historically, a reflection of members offering greater levels of growth.

You can make a good argument that valuations are not yet at the eye-watering levels of 2000, especially when measured against the much more expensive bond market today, but it is inevitable that investors will wonder if US markets have anything left in the tank.

Shares firmly believes they do, and that US markets, and the S&P 500 especially, offer plenty of value too.

INFLATIONARY PRESSURES TRIGGER MARKET ROTATION

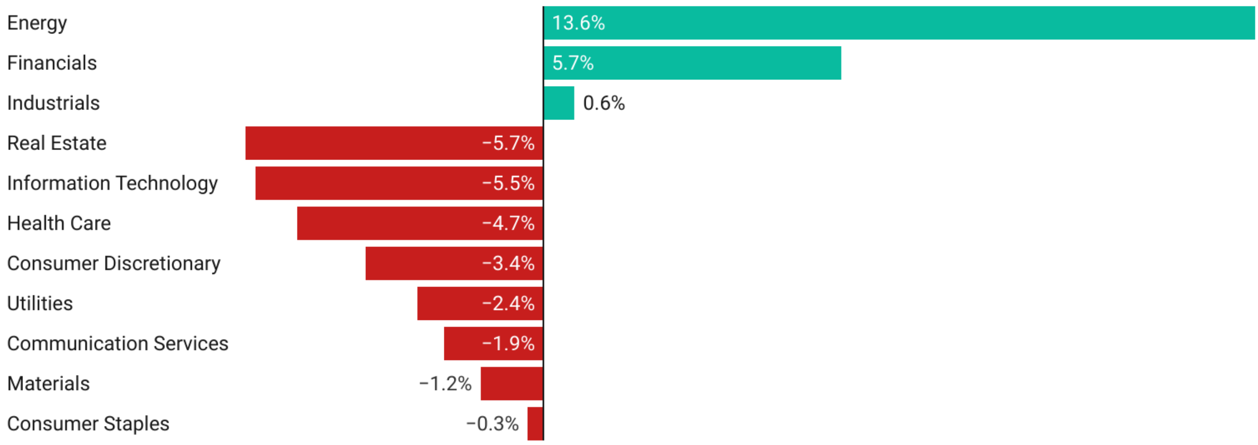
Inflation in the US hit 7% in December 2021, the fastest pace in 39 years. The inflation story is likely to remain front and centre in 2022 as central banks act on tightening monetary policy and global stock markets tremble amid the impending run of interest rate hikes anticipated this year.

Market rotation was a hallmark of 2021 with the early part of last year seeing growth shunned for value, before whipsawing back again as the year progressed. Rotation can once again be seen this year, with technology stocks having come under heavy selling pressure as inflation builds and markets start to price in faster rate rises.

The Nasdaq Composite index lost nearly 7% in just a handful of trading sessions in early 2022. On the stocks front, drug maker Moderna and Covid test processor Quest Diagnostics, which fared well last year, are down 11% and 8.5% respectively year-to-date.

In comparison, some of the classic value sectors like banks and energy have done well.

S&P 500 sectors performance year to date



1 to 14 Jan 2022

Chart: Shares Magazine • Source: Koyfin • Created with Datawrapper

FINDING OPPORTUNITIES

We have scanned the S&P 500 index and pulled together two lists of stocks that have price to earnings ratios of 15 or less, and price to earnings to growth multiples of 1.7 or less. A PE ratio below 20 is traditionally considered on the cheaper side, but note that different sectors trade on different PEs. Traditionally a stock with a PEG of 1 or less is considered really cheap.

Running such filters is a starting point for any investor seeking to reduce the investment universe to a more manageable size.

Our screen is even more relevant given the market is once again accepting that value-style shares are attractive in an environment where interest rates are set to rise to combat soaring inflation.

We're seeing a rotation in the market away from expensive tech stocks and more towards lower valued names that are still capable of delivering low to medium levels of growth.

Put simply, many of the names on the two lists in this article are likely to be catching the eyes of investors in the current market. If you find a good company on the list, you're currently able to buy it at an attractive price – but don't hang around because the queue is growing for people wanting to buy value shares, which could force their prices up.

Please note that not all stocks trading on low valuations are worth buying. Some of them might be cheap for a reason such as intense competition or operating in a market in structural decline. Some sectors like banks and commodity producers have historically traded on lower valuations because of cyclical earnings. [SF]

S&P 500: a selection of stocks with a forward price to earnings (PE) multiple of 15 or below

Part 1

Name	Sector	1 year forward PE	2 year forward PE
Lockheed Martin	Aerospace and Defence	13.7	13.6
Ford Motor	Automobiles and Parts	12.8	12.1
General Motors	Automobiles and Parts	9.1	9.0
Citigroup	Banks	6.5	8.5
JPMorgan Chase	Banks	11.2	14.0
Molson Coors Brewing	Beverages	11.7	12.1
Dow	Chemicals	6.7	9.5
Eastman Chemical	Chemicals	13.6	12.6
Edison International	Electricity	14.4	13.8
NRG Energy	Electricity	10.7	9.9
Capital One Financial	Finance and Credit Services	5.9	8.2
Western Union	Finance and Credit Services	9.0	8.3
ConAgra Brands	Food Producers	13.9	12.9
Kraft Heinz	Food Producers	13.5	14.3
Tyson Foods	Food Producers	12.5	12.0
International Paper	General Industrials	11.6	10.5
DaVita	Health Care Providers	12.9	13.9
HCA Healthcare	Health Care Providers	14.2	13.5
Universal Health Services	Health Care Providers	11.1	10.8
DR Horton	Household Goods and Home Construction	6.9	6.5
Whirlpool	Household Goods and Home Construction	8.6	9.0
Freeport-McMoRan Copper & Gold	Industrial Metals and Mining	14.0	12.1
Nucor	Industrial Metals and Mining	4.7	6.9
Nielsen	Industrial Support Services	12.4	11.7
FedEx	Industrial Transportation	12.2	11.2
Goldman Sachs	Investment Banking/Brokerage Services	6.8	10.0
Morgan Stanley	Investment Banking/Brokerage Services	13.2	14.0
State Street	Investment Banking/Brokerage Services	14.0	12.1
MetLife	Life Insurance	8.0	9.5
Prudential Financial	Life Insurance	8.3	9.5

PE = Price to earnings

Table: Shares magazine • Source: SharePad, 12 Jan 2022 • Created with Datawrapper

S&P 500: a selection of stocks with a forward price to earnings (PE) multiple of 15 or below

Part 2

Name	Sector	1 year forward PE	2 year forward PE
Discovery	Media	10.0	8.9
Fox	Media	13.7	11.0
Omnicom	Media	12.4	12.1
ViacomCBS	Media	9.3	8.8
Amerisourcebergen	Medical Equipment and Services	12.8	11.9
Cardinal Health	Medical Equipment and Services	9.3	8.5
McKesson	Medical Equipment and Services	11.2	11.5
ConocoPhillips	Oil, Gas and Coal	14.1	10.4
Exxon Mobil	Oil, Gas and Coal	13.9	12.1
Marathon Oil	Oil, Gas and Coal	14.4	9.5
Kroger	Personal Care, Drug and Grocery Stores	13.7	14.1
Walgreens Boots Alliance	Personal Care, Drug and Grocery Stores	10.8	10.6
HanesBrands	Personal Goods	9.1	8.8
Phillips-Van Heusen	Personal Goods	11.2	10.4
AbbVie	Pharma, Biotech and Cannabis Producers	10.8	9.8
Moderna	Pharma, Biotech and Cannabis Producers	8.3	8.0
Pfizer	Pharma, Biotech and Cannabis Producers	13.4	9.2
Viatris	Pharma, Biotech and Cannabis Producers	4.1	4.1
Bath & Body Works	Retailers	13.1	12.7
Best Buy	Retailers	10.4	11.1
DXC Technology	Software and Computer Services	9.0	7.7
International Business Machines	Software and Computer Services	13.2	12.8
HP	Technology Hardware and Equipment	9.4	8.9
Intel	Technology Hardware and Equipment	10.6	14.9
Micron Technology	Technology Hardware and Equipment	10.6	8.1
Hewlett Packard Enterprise	Telecommunications Equipment	8.4	7.8
AT&T	Telecommunications Service Providers	7.9	8.2
Verizon Communications	Telecommunications Service Providers	10.0	9.9
Altria	Tobacco	10.7	10.2

PE = Price to earnings

Table: Shares magazine • Source: SharePad, 12 Jan 2022 • Created with Datawrapper

S&P 500: a selection of stocks on a forward PEG of 1.7 or less

Part 1

Name	Sector	PEG: Forward year 1	PEG: Forward year 2
Huntington Ingalls Industries	Aerospace and Defence	1.5	0.6
Raytheon Technologies	Aerospace and Defence	1.2	0.9
Aptiv	Automobiles and Parts	0.8	0.9
BorgWarner	Automobiles and Parts	0.6	0.5
Constellation Brands	Beverages	1.7	1.6
DuPont de Nemours	Chemicals	1.2	1.3
Johnson Controls	Construction and Materials	1.2	1.4
Vulcan Materials	Construction and Materials	1.4	1.3
NRG Energy	Electricity	1.3	0.5
Mastercard	Finance and Credit Services	1.6	1.5
Visa	Finance and Credit Services	1.6	1.6
Western Union	Finance and Credit Services	1.1	1.1
Lamb Weston	Food Producers	0.6	0.8
Ball	General Industrials	1.3	1.2
Leggett Platt	Household Goods and Home Construction	1.4	1.3
NVR	Household Goods and Home Construction	0.8	1.0
Pulte	Household Goods and Home Construction	0.3	0.5
Caterpillar	Industrial Engineering	1.1	0.8
General Electric	Industrial Engineering	0.5	0.6
Global Payments	Industrial Support Services	1.0	0.9
FedEx	Industrial Transportation	1.3	1.3
Wabtec	Industrial Transportation	1.4	1.7
Raymond James Financial	Investment Banking and Brokerage Services	1.0	0.8
State Street	Investment Banking and Brokerage Services	0.9	0.6
UnitedHealth	Life Insurance	1.7	1.6
Unum	Life Insurance	0.4	0.4
Comcast	Media	1.0	1.0
Discovery	Media	0.8	0.7
Walt Disney	Media	1.0	1.1

PEG = Price to earnings to growth

Table: Shares magazine • Source: SharePad, 12 Jan 2022 • Created with Datawrapper

S&P 500: a selection of stocks on a forward PEG of 1.7 or less

Part 2

Name	Sector	PEG: Forward year 1	PEG: Forward year 2
Amerisourcebergen	Medical Equipment and Services	1.7	1.6
Baxter International	Medical Equipment and Services	1.1	1.5
Cardinal Health	Medical Equipment and Services	1.0	0.7
American International	Non-life Insurance	1.0	0.8
Chubb	Non-life Insurance	0.8	1.2
Principal Financial	Non-life Insurance	1.5	1.2
Halliburton	Oil, Gas and Coal	0.4	0.5
Marathon Petroleum	Oil, Gas and Coal	0.3	0.9
Schlumberger	Oil, Gas and Coal	0.6	0.6
Newell Brands	Personal Care, Drug and Grocery Stores	1.4	1.2
Sysco	Personal Care, Drug and Grocery Stores	1.0	1.4
Tapestry	Personal Care, Drug and Grocery Stores	0.9	0.9
Phillips-Van Heusen	Personal Goods	1.4	0.9
Ralph Lauren	Personal Goods	1.6	1.1
VF	Personal Goods	1.4	1.5
Incyte	Pharma, Biotech and Cannabis Producers	0.9	0.7
Perrigo	Pharma, Biotech and Cannabis Producers	0.7	0.5
Dollar Tree	Retailers	0.7	1.2
Ebay	Retailers	1.2	1.7
Gap	Retailers	0.3	0.5
Autodesk	Software and Computer Services	1.5	1.5
Take-Two Interactive Software	Software and Computer Services	0.8	1.0
Twitter	Software and Computer Services	0.6	1.0
Corning	Technology Hardware and Equipment	1.4	1.6
Micron Technology	Technology Hardware and Equipment	0.3	0.7
Qorvo	Technology Hardware and Equipment	1.2	0.9
T-Mobile US	Telecommunications Service Providers	1.2	0.5
Booking Holdings	Travel and Leisure	0.4	0.9
Expedia	Travel and Leisure	0.3	0.6
Marriott International	Travel and Leisure	0.7	1.1

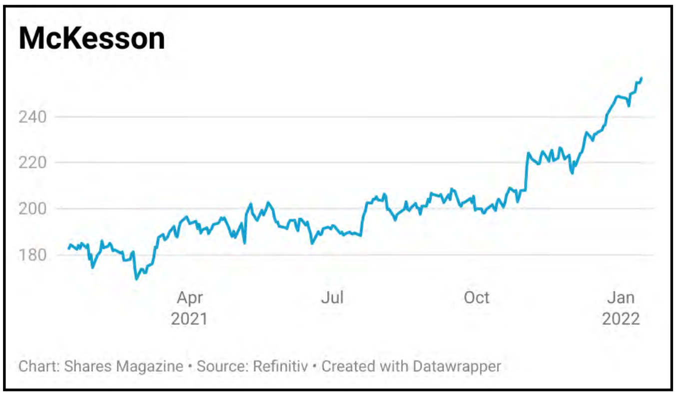
PEG = Price to earnings to growth

Table: Shares magazine • Source: SharePad, 12 Jan 2022 • Created with Datawrapper

SIX US SHARES TO BUY NOW

McKesson $255 BUY

PE: 11.2 (FY1), 11.5 (FY2)



Three firms – McKesson, AmerisourceBergen and Cardinal Health – control over 90% of the $500 billion annual US drug wholesale and distribution market, with each taking roughly a one third share.

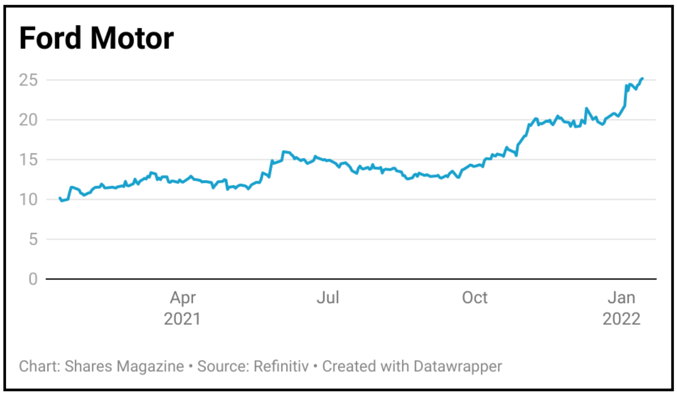
Wholesalers play a crucial role in the supply chain linking over 1,200 drug companies with tens of thousands of pharmacies and healthcare providers.

They allow manufacturers to ship their products to centralised wholesaler locations rather than sending them direct to individual pharmacies or healthcare providers. They also use their scale and capital to negotiate better terms with manufacturers and supply drugs to pharmacies at a lower price than if the pharmacies bought them directly.

Operating in such a consolidated market means the risk of disruption from new entrants is very low, while the large amount of capital needed to compete is another major barrier to entry. McKesson also has exclusive supply agreements with CVS Health and Walmart which generate a significant amount of repeat and therefore predictable cash flows. [IC]

Ford Motor $24.88

PE: 12.8 (FY1), 12.1 (FY2)



Shares in US automaker Ford have motored since 2020 as investors warm to its opportunities in the electric vehicle market and car demand bounces back post-pandemic.

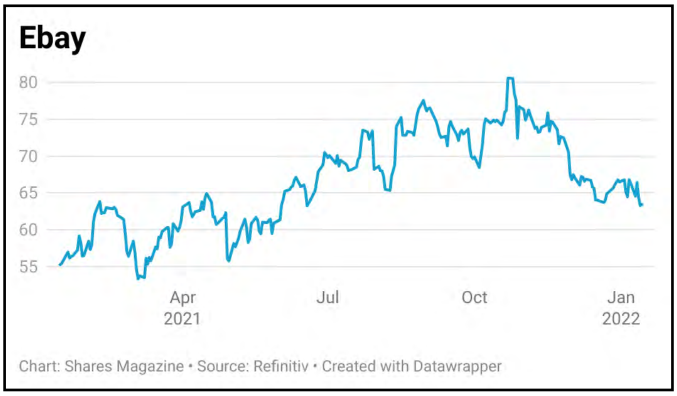
Even though Ford's market value recently topped $100 billion for the first time, the shares continue to offer value on a two-year forward price to earnings multiple of 12.1.

Ford plans to increase production of electric vehicles including the Mustang Mach-E and F-150 Lightning pickup truck. The company might also get a potential windfall should it choose to sell its 11.4% stake in electric van and truck maker Rivian Automotive, the pair having last November cancelled plans to jointly develop an electric vehicle. The stake in Rivian is currently worth $8.2 billion.

Risks for investors to consider with Ford's shares include a downturn in the cyclical auto industry, increased electric vehicle competition and the challenges of scaling EV production. [JC]

Ebay $63.28

PEG: 1.2 (FY1), 1.7 (FY2)



There really isn't another auction business with the global reach and product breadth as Ebay.

Having spun off Paypal in 2015, Ebay has subsequently spent time refining its proposition and slimming down further, including the sale of its online classified advertising business to Norway's Adevinta last year.

There is a growing trend for people to buy and sell second-hand (or 'pre-loved') items rather than amass endless new products, possibly because of environmental concerns or simply a love of vintage. Either way, it provides a tailwind for Ebay.

It's worth noting a decline in active users since the pandemic peak which might be down to fewer people stuck at home looking for ways to make money. It might also be down to fewer promotions on Ebay's site, although the move has saved the company money on marketing spend.

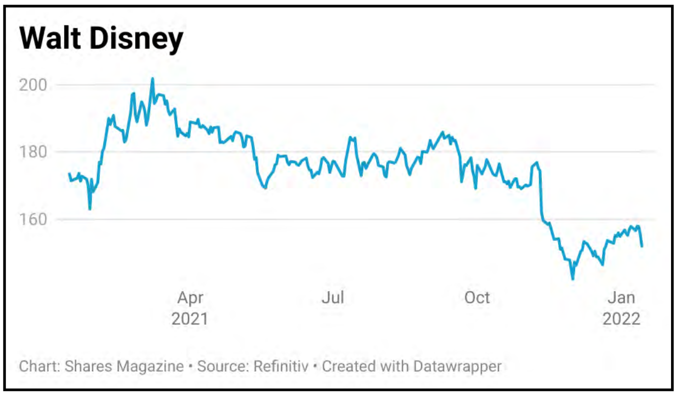
Facebook Marketplace is a competitive threat to consider longer term, yet that platform is currently mired in controversy around many users being scammed.

Perhaps most importantly, last year Ebay increased the percentage it takes from every sale. It has also started to loan money to small business sellers on its platform, thereby adding another revenue stream and hopefully improving customer stickiness.

Expected pre-tax profit of $2.2 billion in 2021 is forecast to grow to $2.96 billion in 2022 and $3.29 billion in 2023, according to Refinitiv. [DC]

Walt Disney $155.44

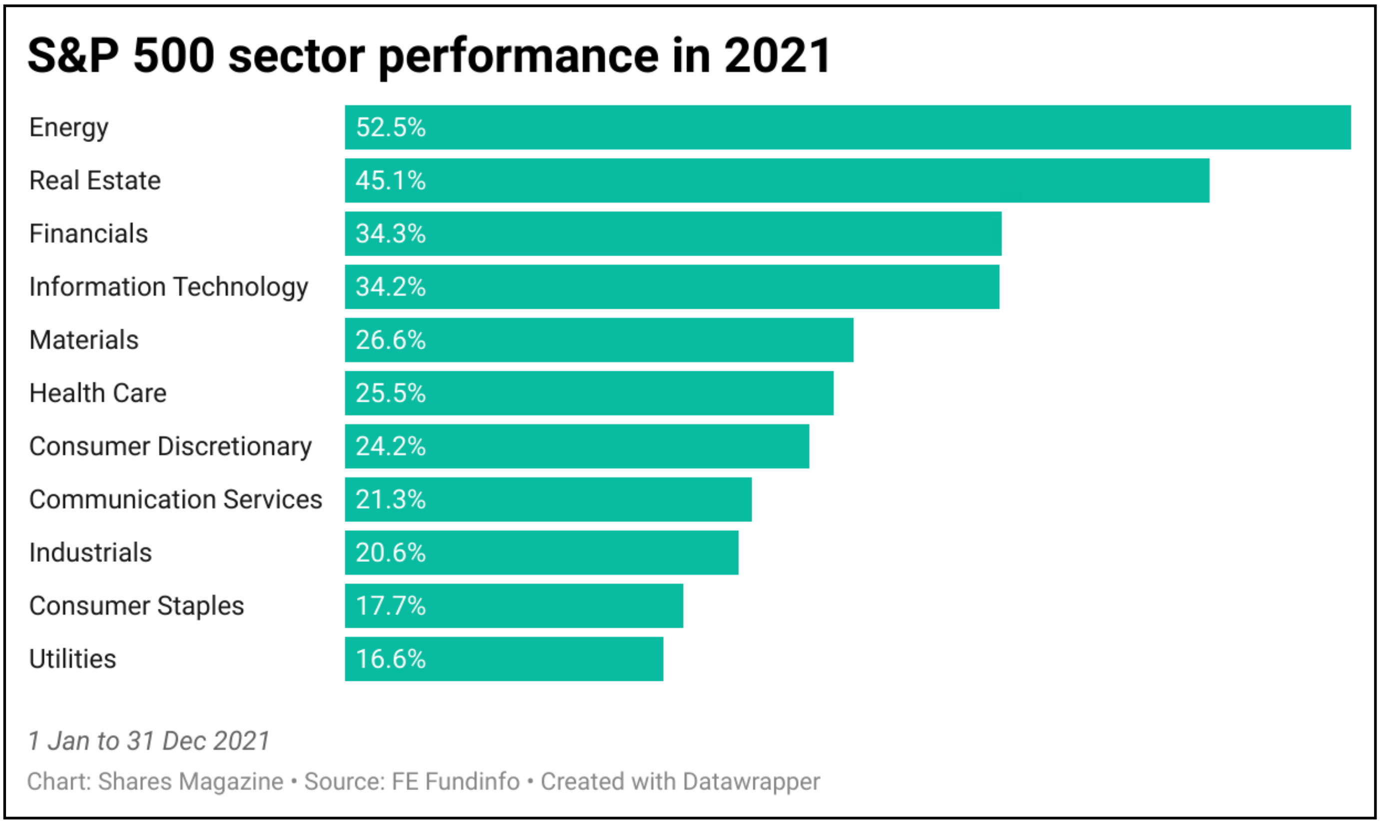
PEG: 1 (FY1), 1.1 (FY2)



Walt Disney admittedly endured an iffy 2021 when growth of its streaming platform stalled, and its theme parks continued to be affected by Covid restrictions. However, the resulting share price weakness has created an enticing buying opportunity in the world's leading entertainment business.

Trading on a PEG ratio of 1, this stock is arguably a bargain when considering expected growth rates.

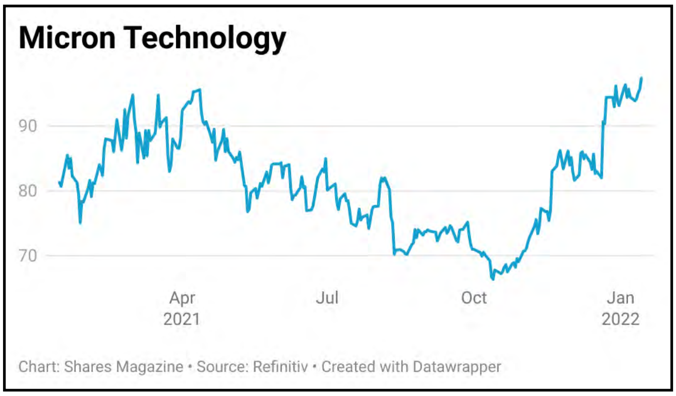
Yes, the streaming side has lost momentum, but Disney is investing heavily in new films and TV shows. From a standing start, the company



has already delivered impressive growth based on its archive of outstanding content across the Marvel and Star Wars universes, Pixar and its eponymous animated features. This intellectual property can be milked for decades to come, via new productions and merchandise.

This year should see a return to foreign travel and revival of tourism, boosting visitor numbers at its theme parks. This, in turn, will reinforce the way its creations resonate with audiences. [TS]

Micron Technology $95.65
PE: 10.6 (FY1), 8.1 (FY2)
PEG: 0.3 (FY1), 0.7 (FY2)



This complex memory microchip manufacturer is a good illustration that not all quality technology businesses trade on sky-high valuations.

Nasdaq-listed Micron Technology is one of the world's top producers of DRAM and NAND flash memory chips.

DRAM is used in PCs, laptops, smartphones and servers to perform their various functions. NAND flash is what allows a memory stick to work, or you to store music on your phone.

Global industry is still reeling from microchip shortages so there is plenty of pent-up demand, while analysts believe that the DRAM chip industry has become less cyclical than in the past thanks to better industry discipline after sector consolidation.

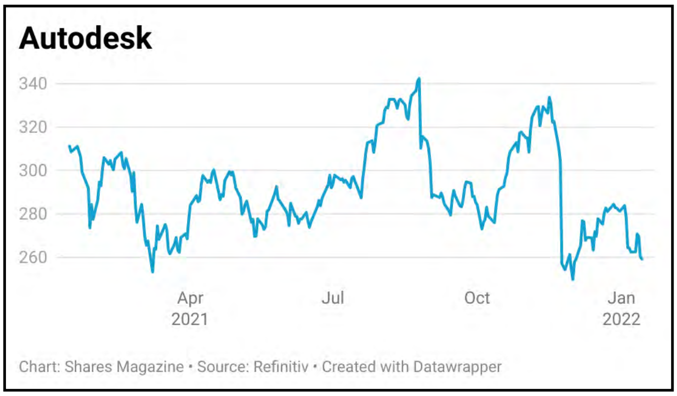
Credit: MICRON

Little of this seems to have been priced in, with the stock still trading in line with its five-year average and on a discounted PE of 10.6 and PEG of just 0.3. This is surprising considering

Micron's pristine balance sheet, stellar free cash flow generating abilities, and promising growth outlook supported by secular growth tailwinds. [SF]

Autodesk $255.81

PEG: 1.5 (FY1), 1.5 (FY2)

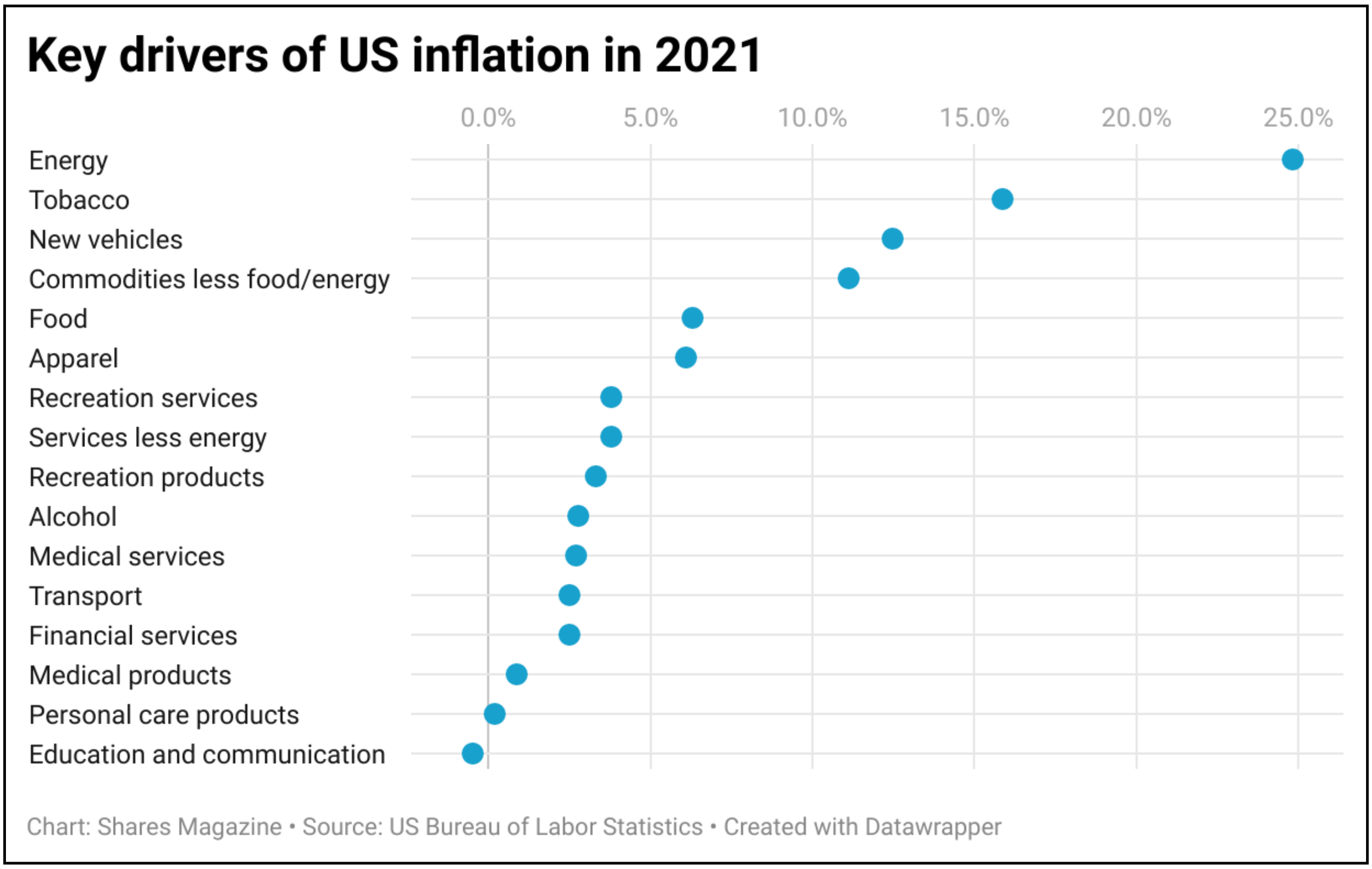


The cloud engineering software company might not look great value on immediate PE terms – it trades on a next 12-months ratio of about 40, but it has been growing earnings at 20%-plus for years, a pace that is even picking up. Analysts forecast 25% growth in 2022 and 36% in 2023.

Investors have come to rely of these impressive earnings that imply an undemanding PEG ratio of 1.5, and means that the PE will fall sharply ahead, or more likely, power the share price to new records. The stock has increased by nearly 130% in five years.

This is a company firmly entrenched in its many markets – architecture, construction, media, manufacturing and more – making it almost impossible for clients to switch elsewhere.

That creates high levels of subscription-based income visibility every year and has allowed Autodesk to beat the last 10 quarterly earnings forecasts. [SF]



How to buy US shares: the key points to consider

The tax and cost issues to note when investing in the world's largest financial market

Strong returns from the US market over the past decade have caught investors' attention, particularly the performance of stocks like Tesla, Amazon and Apple. Fortunately, it's easy to buy US shares, if you so wish. Many of the big stocks are available on UK investment platforms and you can buy and sell US shares between 2.30pm and 9pm UK-time.

There are some key points to consider when you are investing in US shares and this useful guide will come in handy if you are thinking about picking some of the stocks stateside.

FOREIGN EXCHANGE RATES

You must consider the impact that currency movements can have on your investment returns when buying overseas-listed stocks. Foreign exchange costs and how they are applied vary between investment platforms.

Typically, conversions from dollars into sterling are done on a deal-by-deal basis and when you look to trade an overseas stock on a UK platform your price will be quoted in sterling. Dividends also tend to be converted into sterling when they are received.

As with any exchange of currency, a charge can be incurred when converting from one to another.

AN IMPORTANT FORM TO COMPLETE

Most US shares can be held in a dealing account, ISA or SIPP (self-invested personal pension). For any account except a SIPP, you will need to complete a W-8BEN form to be able to invest in a US share. The form can typically be completed online.

Tax treaty arrangements between the US and UK mean that the usual 30% withholding tax on US dividends is halved to 15% for investments in a dealing account or ISA once a W-8BEN form is completed.

A W-8BEN form is not required for US investments held within a SIPP as the relevant US authority, the IRS, recognises SIPPs as a qualifying pension scheme and all qualifying US dividends and interest are automatically paid free of any withholding tax.

For example, if you bought £1,000 worth of shares for your ISA in US consumer electronics giant Apple and paid a typical £10 dealing charge and 1% foreign exchange charge, £20 or around 2% of the overall value of your investment would go on dealing costs.

The charge on converting your dividend into sterling might be around half the 1% forex costs paid when purchasing the shares. If you factor in a 15% withholding tax, the 22 cents dividend per share announced in Apple's 2021 fourth quarter numbers would come to you at just under 19 cents per share once the charges and taxes had been applied.

However, if you held Apple in a SIPP you would net 21.9 cents per share (after accounting for the forex charge) as the withholding tax would not apply.

By **Tom Sieber** Deputy Editor

Discover the FTSE 350 growth stocks trading at a discount to the market

There are plenty of opportunities to pick up steady growth stocks on the cheap

Although many developed markets have hit a new all-time high in recent months, the FTSE 350 index of UK stocks still trades below the highs achieved in the middle of 2018.

There are plenty of cheap shares on offer in this index. In this article we uncover stocks expected to consistently grow earnings over the next two years that trade at a price to earnings multiple below the market. This investment strategy is sometimes called GARP or growth at a reasonable price.

Shares has used Stockopedia's platform to screen for companies which are forecast to grow at least 5% a year over each of the next two years and which trade on a one-year forward PE ratio of less than 16 times, which is below where the index trades according to Refinitiv and Stockopedia data.

Screening is not intended to be an exact science, but it does allow us to reduce the FTSE 350 universe down to the most promising GARP candidates.

PROBING THE DATA

Not all companies have the same financial year end which means the damaging effect of the pandemic was reported through the accounts at different times.

This has in some instances resulted in the fiscal year one earnings growth estimate being distorted as analysts forecast a robust recovery following the reopening of the economy.

We have calculated an average growth rate for each company over both forecast years to smooth the return, but the distortion is still evident.

A good example is international private healthcare provider **Mediclinic International (MDC)** which runs hospitals in Switzerland, South Africa and the Middle East and was heavily impacted by lockdowns. Earnings are expected to grow eight-fold in the year to 31 March 2022 to 21p per share, as activity bounces back.

A better perspective in this case is to look at pre-pandemic earnings as the base. In March 2020 the company reported earnings of 27p per share and analysts expect the company to regain that level of earnings in the year to 31 March 2023.

In choosing our preferred stocks from the screen we have tried to look through the recovery in earnings and focused on companies which are expected to achieve consistent growth post-pandemic.

STRUCTURALLY LOWER PE RATIOS

When searching for companies trading below the market PE, please note that some sectors have historically always traded at a discount, so we need to take this into account when assessing the candidates that qualify for the screen.

In other words, just because a share trades on a low PE multiple doesn't automatically make it an attractive investment proposition.

FTSE 350 GROWTH AT A REASONABLE PRICE SCREEN

Stocks offering at least 5% earnings growth and trading below the market's average 16 times earnings

Name	Average FY1 & FY2 EPS growth	PE Forecast 1y
TP ICAP	13.7%	7.7
Bellway	6.2%	8.0
Investec	56.4%	8.3
Vistry	102.4%	9.3
Taylor Wimpey	58.3%	9.7
Premier Foods	8.8%	10.1
Redde Northgate	27.3%	10.3
Crest Nicholson	30.2%	10.6
RHI Magnesita	59.8%	10.7
Balfour Beatty	723.2%	12.0
BAE Systems	14.2%	12.4
Rathbones	47.4%	12.6
Tyman	32.0%	12.8
DS Smith	40.7%	13.2
Airtel Africa	37.2%	13.4
Countryside Properties	20.8%	13.5
Vesuvius	34.9%	13.8
Brewin Dolphin	17.5%	13.8
Greencore	137.7%	13.8
Vodafone	388.7%	13.9
DCC	17.1%	14.5
Coats	116.4%	14.8
Associated British Foods	50.9%	15.0
Hikma Pharmaceuticals	20.7%	15.1
GlaxoSmithKline	8.6%	15.2
Next	32.4%	15.4
Schroders	11.9%	15.5
Fresnillo	19.6%	15.5
Mediclinic International	417.5%	15.6
Mondi	11.9%	15.6
PZ Cussons	25.7%	15.8
Travis Perkins	265.7%	15.8

Data at 11 Jan 2022

Source: Stockopedia, Refinitiv • Created with Datawrapper

Lower PEs can sometimes reflect higher risk or lack of earnings visibility. Retail banks are a good example with the sector regularly trading at a discount to the market.

The main reason is that banks have leverage built into their balance sheets which makes them riskier while the prospect of loan impairments from bad debts lowers earnings visibility. No banks made it onto our stock screen because they failed the 5% earnings growth threshold in year two.

Sectors which have volatile earnings and are sensitive to the economic cycle also tend to trade at lower than market valuations to reflect the higher uncertainty in earnings. The mining sector fits this category and historically it has traded at a discount to the market.

For similar reasons to the banks, the miners failed to qualify because of a lack of expected future earnings growth that matches our requirement.

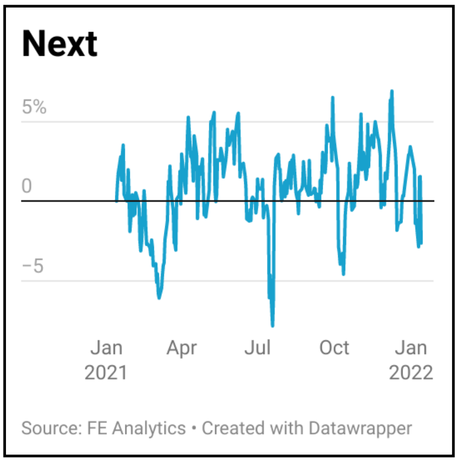
Four housebuilders made the list of candidates including **Taylor Wimpey (TW.)**, **Vistry (VTY)**, **Bellway (BWY)** and **Crest Nicholson (CRST)**.

Earnings of investment banks and wealth managers tend to reflect a leveraged bet on the movement of stock markets, given their fee structures and high fixed costs which can leave them vulnerable in bear markets. This risk has historically been reflected in lower PEs.

Investment bank **Investec (INVP)** and wealth managers **Brewin Dolphin Holdings (BRW)**, **Schroders (SDR)** and **Rathbones (RAT)** all made the list of candidates on our screen.

TOP PICKS FROM OUR FTSE 350 CHEAP STOCKS SCREEN

Next (NXT) £76.50



Clothing retailer Next enjoyed strong Christmas trading and upgraded full year profit expectations while also declaring a special dividend to be paid at the end of January.

However, the company noted some headwinds for the current year including increased pressure on household disposable incomes from rising inflation.

The company flagged the risk that the boost from pent-up demand and savings fades and a return to spending on overseas holidays and other social activities could depress demand for clothing and homewares.

Despite these near-term concerns, we believe the company is well positioned to face the challenges and prosper in the medium term as it adapts to a changing consumer landscape.

Over the past decade, Next has successfully transitioned from a store-led business model to an online-led one, with physical stores expected to represent less than 30% of the estate in the current year.

At the same time the company has built its own online business to provide a third-party e-commerce outsourcing service named Total Platform, which launched in May 2020 after a pilot exercise.

We believe Total Platform has potential to contribute meaningful revenues and profits over time and it leverages the company's infrastructure, warehousing and logistics expertise.

Vodafone (VOD) 117.3p

Source: FE Analytics • Created with Datawrapper

Vodafone has been a laggard for many years, but some analysts think the company has turned a corner as it focuses more on growth, eking out operational efficiencies and cutting back on capital expenditures.

In November the company upgraded its earnings expectations for the financial year ending 31 March 2022, to the upper end of guidance. That implied underlying profits growth of between 4.5% to 5.9% to between €15.2 billion and €15.4 billion.

Adjusted free cash flow is also expected to be marginally better than previous forecasts at around €5.3 billion, underpinning the dividend.

It is noteworthy that analysts have increased their 2022 earnings estimates by around 5% since the half year report in November, while 2023 earnings are expected to register solid double-digit growth.

In addition to accelerating earnings, the company has a prospective dividend yield of 6.5%. Meanwhile, the emergence of private equity looking for cheap assets in the telecom sector adds a further attractive dimension to the narrative.

GlaxoSmithKline (GSK) £17.05

Source: FE Analytics • Created with Datawrapper

Pharmaceutical company GlaxoSmithKline has two activist investors on its share register pushing for change and a sharper commercial focus with the aim of generating better returns.

Since the middle of last year, the company has seen a steady increase in upward earnings revisions from analysts indicating the company is starting to deliver on its strategy with increased earnings momentum.

Analysts expect close to double-digit earnings growth over both of the next two years, while management recently upgraded full year 2021 earnings guidance following a stronger than expected third quarter.

A catalyst which could potentially release further value is expected by the middle of the year when the consumer healthcare division, a joint venture with US healthcare company Pfizer, is demerged.

Unilever (ULVR) has already made a takeover bid for this business division and we expect other trade or private equity companies to also be interested.

By **Martin Gamble**
Education Editor

Discover the cheap AIM stocks offering sustainable growth

Contrary to perceptions there are plenty of durable businesses on the junior market

AIM probably isn't the first place investors would look for stocks offering growth at a reasonable price, given it is home to many pre-profit companies where most of the valuation depends on cash flows which will take many years to materialise.

Yet it is also home to plenty of established, durable businesses with sustainable cash flows and earnings which are worth investigating. Here we pick three companies which we think the market is undervaluing given their growth potential.

ANEXO (ANX:AIM) 156p

Anexo (ANX:AIM) is unique as a listed company in terms of its business model, which is providing integrated credit hire and legal services to non-fault motorists who are involved in accidents.

Founded in 2006 by qualified barrister Alan Sellers, who still heads the group today as executive chairman, the firm has a claims handling department which assesses the validity of each claim before passing it on to the in-house legal division while the credit hire division arranges a replacement vehicle which is charged to the at-fault motorist's insurers.

When the courts ruled in favour of a cooling off period on credit hire in 2012, many firms found themselves over-stretched and ceased trading, but those that were left prospered, including Anexo. Further, the competition review of 2014 ruled there should be no cap on credit hire charges in cases involving impecunious clients, in other words those without the means to afford a replacement vehicle after an accident.

Admittedly Anexo's business suffered during the various lockdowns and restrictions in 2020 as fewer drivers were on the road, but in in its latest trading update (18 Jan) the company revealed revenue growth ahead of expectations and pointed to profit significantly ahead of expectations in the year to 31 December 2021, driving upgrades to forecasts for future years too.

The firm is now in an ideal situation as the number of vehicles on the road continues to grow, the value of second-hand cars and motorcycles continues to soar which means claim values are rising, courts have re-opened meaning the number of cases settled is growing and cash collections are improving.

More accidents mean more of its hire fleet is on the road, meaning more fees, which is good for margins and for the legal teams who chase down the claims.

In June last year major shareholder DBAY Advisers offered 150p per share to take the company private, but shareholders saw off the approach, which is to the benefit of new investors.

The company also has a nice

AIM GROWTH AT A REASONABLE PRICE SCREEN

Selected stocks offering at least 5% earnings growth and trading below the market's average 16 times earnings

Name	Avg FY1 & FY2 EPS Growth (%)	PE Forecast 1y
Serabi Gold	29.0%	4.8
Central Asia Metals	46.7%	6.9
Gyg	213.2%	7.1
Appreciate	113.8%	7.5
Renold	56.7%	8.8
Litigation Capital Management	102.2%	8.8
Springfield Properties	26.1%	9.1
Anexo*	32.1%	9.3
Time Finance	43.8%	9.6
Gattaca	137.6%	10.6
Xpediator	41.2%	11.1
Premier Miton	49.5%	11.1
Argentex	37.7%	11.3
Accrol Group	782.3%	11.3
Caretech	23.0%	11.6
Orchard Funding	34.7%	11.7
Titon Holdings	6.3%	11.7
Inland Homes	116.2%	12.4
Wentworth Resources	14.0%	13.0
Brickability	64.3%	13.3
Sanderson Design*	40.0%	13.4
Iofina	126.7%	13.6
Somero Enterprises Inc	40.0%	13.6
Property Franchise	33.1%	13.6
Begbies Traynor	82.9%	14.5
Sureserve	43.9%	14.8
Joules	156.6%	14.9
Brooks Macdonald	29.5%	15.0
Epwin	41.1%	15.1
Mpac	12.4%	15.3
Shearwater	572.1%	15.5
Gateley Holdings	32.8%	15.7

Table: Shares Magazine • Source: Stockopedia, Refinitiv. Data at 11 Jan 2022. *Source: Progressive Equity Research, data at 18 Jan 2022. • Created with Datawrapper

little earner on the side as it is handling claims for some 15,000 former VW customers in a class action. If the courts rule in its favour it would have 'a significant positive impact on the group's expectations for profits', which isn't included in analysts' forecasts.

ARGENTEX (AGFX:AIM) 86p

Specialist foreign exchange provider **Argentex (AGFX:AIM)** has grown its revenue and profit every year since it floated a decade ago, which is almost the definition of a sustainable business.

The firm makes and receives payments on behalf of institutions, businesses and high net worth individuals and has traded more than £75 billion in over 70 different currencies since it floated. Even during times of economic turmoil like the pandemic its customers need the company's services.

Operating as a riskless principal for non-speculative and commercial currency dealing, the firm takes no positions for itself but offers superior analysis and execution for its clients to generate its income. Not only is it profitable, it is debt free with £23 million of net cash at the end of September.

Revenue for the first half of the year to March 2022 was up 33% on the same period a year earlier to a record £15.7 million, while underlying operating profits were up 27% to £4.7 million. Due to the nature of the business, nearly 80% of revenue converts to cash after three months or less so the payback is quick.

The firm added 271 new

corporate clients during the first half to take its roster to 1,241 clients, and client acquisition is likely to be even stronger in the second half.

Argentex also increased staff numbers by 28 to 69 full time employees across its London and Amsterdam offices, and as analysts at Numis point out the revenue generation potential of new sales staff gets increasingly stronger over a five to seven year period so there is 'a material amount of inbuilt revenue growth' which the market isn't factoring in.

As business confidence continues to improve, the firm sees 'significant growth opportunities' ahead in the UK and it is in the process of adding an Australian office to service the Far East market.

Consensus forecasts are for earnings to grow more than 35% this year and next year, for which investors are being asked to pay a multiple of just 11 times. Adding in the ability to grow revenue at low cost and finance its expansion from internal resources, we think the shares are considerably undervalued here.

SANDERSON DESIGN GROUP (SDG:AIM) 180p

Luxury interior furnishings firm **Sanderson Design (SDG:AIM)** may be a household name to a few lucky readers but for most investors it has flown under the radar. Its relative anonymity may be lost after an extremely strong update on 18 January, revealing a much better than expected performance for the 12 months to 31 January 2022.

The group brings together quintessentially English brands Sanderson, founded in 1860, and Morris & Co, founded by William Morris in 1861, with several other brands including relative newcomers Scion and Clarke & Clarke under one roof in order 'to bring the beautiful into peoples' homes and lives'.

The firm manufactures its own wallpapers and fabrics in the UK and sells them globally both through retailers and direct to the consumer. High street retailer **Next (NXT)** is an important partner, with the Morris & Co clothing range performing well.

Earnings for the six months to the end of July were ahead of the previous year and ahead of management expectations thanks to pent-up demand for its upmarket interior furnishings, strong demand for British-made designs due to issues with overseas supply chains and 'a sustained trend towards decorative styles' according to the company.

In addition, demand in the US was 'exceptional' thanks to renewed consumer confidence since the change in administration. Just after the end of the half the firm signed its first major licensing deal for Morris & Co in the US, expanding its range into cookware and tableware.

Chairman Dianne Thompson said the first half 'continued the strong recovery of the business, with particularly impressive performances from North America, manufacturing and the Morris & Co. brand'.

With a net cash balance of £15.4 million at the end of half, the firm returned to the dividend list with an first half payout of 0.75p per share distributed to shareholders in November.

Over the coming year the group is targeting growth in all regions and brands through bigger average order sizes, with double-digit licensing revenue growth and return on investment per product improving as it focuses on its core fabrics and wallpapers.

Within two years it expects homewares to be a significant part of revenues and to have established new direct to consumer income streams to complement its retail business making it the dominant force in high-end interior furnishings.

By **Ian Conway**
Companies Editor

Short term pain, long term gain

The team behind BB Healthcare Trust think the chaos being caused by the Omicron variant could create opportunities for long term investors...

In a year when more than eight billion doses of the vaccines for COVID-19 were administered it was no surprise to see Moderna listed as one the best performing stocks in the world in 2021[1].

What is perhaps more telling, however, is that the list was topped, not by a vaccine or healthcare provider in that most health-conscious of years, but by a company which sells computer games and reported a net loss of $61m in the last quarter of its financial year[2].

Markets continue to be irrational, then, and the reaction of markets to the emergence of the Omicron is as good an example of this irrational nature as any.

Healthcare stocks, like pretty much all others – barring Tesla of course, because electric cars are a must even in Armageddon – took a big hit in November as juicy news of the 'super-mutant' strain began to push news of cheese and wine at Downing Street off the front page.

Yet despite the usual howls of terror in the media, **BB Healthcare's (BBH)** managers, Paul Major and Brett Darke, think the chaos created by Omicron has created an opportunity for investors who are brave enough to see past the noise.

"March 2020 will be one of those periods that we will forever remember; an epoch-defining event. For obvious reasons, this was also the worst month in the trust's history in terms of relative and absolute performance: the trust's Net Asset Value declined 10.8% in sterling terms versus a 1.1% decline for the MSCI World Healthcare benchmark.

"With regard to the current situation around Omicron it is surely evident to even the most casual observer that the situation before us today is incomparable to that of March 2020 in terms of the risk to society." said Paul. "Nonetheless, we find ourselves staring at a bizarrely similar situation in terms of the portfolio."

Paul and Brett moved quickly to make the most of depressed valuations in the sectors they hold. "This is undoubtedly a great opportunity for longer-term investors," said Paul, "and we have been active on the deployment side, with one new company being added to the portfolio in Focused Therapeutics. This aside, we have added to 10 of our 30 previously held positions and reduced exposure to 16, with 5 unchanged."

Paul says a snap market recovery could occur if the data ultimately supports the theory that Omicron cannot evade vaccines effectively, or if its apparent transmissibility advantage comes with a reduction in morbidity risk. We should know the answer shortly. "Thus far, the totality of the data on Omicron since it became established in South Africa and the UK supports the idea that it results in a lower morbidity burden versus the Delta wave of mid-2021, although we cannot know if this is because the virus has changed or because so many now have protection from vaccination or prior COVID exposure. Does it really matter why? What matters is whether or not society is facing another huge wave of morbidity and mortality."

If this turns out to be the likely scenario, then it would be a positive for healthcare stocks, and markets generally, but it is far from a dead-cert. Smaller companies and riskier sectors – like healthcare – have already been hit harder than most by the risk-off trade which has accompanied Omicron and more likely is that short term pain will intensify, creating more opportunities for those with an eye on the long term.

"For us this is a question of when to accelerate capital deployment and leverage, and by how much. There is no reason to think we are headed into another March 2020 situation in terms of illness from COVID."

"As terrible as the height of the first wave of COVID was for the world, it was also a tremendous opportunity for investors and there is no reason why we should not see the same playbook unfold again if Omicron proves to be less dangerous than it was feared to be."

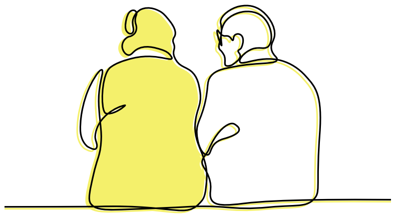
BB Healthcare is a UK listed investment trust which aims to provide shareholders with capital growth and income over the long term, through investment in listed or quoted global healthcare companies. The trust has delivered annualised NAV total returns of 22.8% over five years to the end of 2021.

Click **here** to read our latest research on BB Healthcare Trust...

[1] Source: Investopedia

[2] Source: Gamestop report and accounts

Will my wife pay inheritance tax on my pension when I die?



Many people see pensions as having two purposes: funding retirement and providing money to pass on to their partner, children and grandchildren

Does my election using AJ Bell's standard SIPP beneficiary facility to make my wife my beneficiary (100%) mean my pension would fall inside my estate and be counted for inheritance tax purposes?

I appreciate that a spouse is able to inherit their partner's estate without inheritance tax being payable so it seems as if I have answered my question, but I'd appreciate clarity on this matter. Does this question only apply to someone leaving a pension to someone other than their spouse?

Also, how would the following situation work: I pass away first, leaving my wife my pension – however, she dies shortly afterwards but has not had time to change her SIPP election to our son so that he is the beneficiary. Would our son still inherit the money in these circumstances?
Guy

Tom Selby, AJ Bell Head of Retirement Policy says:

As you suggest in your question, assets bequeathed to a spouse or civil partner should be exempt from inheritance tax. In most cases defined contribution pensions such as SIPPs will fall outside of your estate and be free from inheritance tax on death.

If you die before age 75 there should be no tax to pay on your SIPP funds by your nominated beneficiaries at all, while if you die after age 75 then the funds will be taxed in the same way as income when your beneficiaries come to make a withdrawal.

What's more, if your beneficiaries die before age 75 they too can pass on any unused funds tax-free to their beneficiaries. As such, pensions are now more than just a retirement savings vehicle – they also offer a tax-efficient route to passing money down the generations.

For your pension to be passed on tax efficiently to the people you want, there are two key things you need to do.

Firstly, you need to make sure your nominated beneficiaries are kept up-to-date, and in particular where life events such as marriage, the birth of a child or divorce change your wishes.

While in some cases it is technically at the discretion of your pension provider whether or not to follow your nominations, it is rare a provider would not follow your wishes.

Secondly, your fund needs to be 'designated' to your beneficiaries within two years of your death. This just means transferring the funds into your beneficiaries' names.

On your final question, the best way to make sure any unused pension is passed onto the person you want is to update your nominations accordingly. If this hasn't been done, then the whole process risks becoming messy and expensive at what is often an emotionally stressful time. If you are unsure, speak to a regulated financial adviser, who can make recommendations based around your circumstances.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Why bitcoin's future hangs in the balance

The cryptocurrency would need to hit £380 million in 10 years to match return of the last decade

It's been a painful couple of months for bitcoin investors. The price has fallen from over $65,000 at the beginning of November to around $43,000 at the time of writing. Despite a poor end to the year, bitcoin investors still made a 61% return in 2021.

That's relatively lacklustre by the cryptocurrency's own standards, particulary when compared to returns of 1,271% in 2017 and 5,758% in 2013. Longer-term returns are close to incomprehensible. £1,000 invested in bitcoin 10 years ago would be worth around £11 million today.

These figures suggest that anyone jumping on the bitcoin bandwagon now is somewhat late to the party. They might still have a jolly good time for a while, but they aren't going to be quaffing as much champagne and caviar as the early birds.

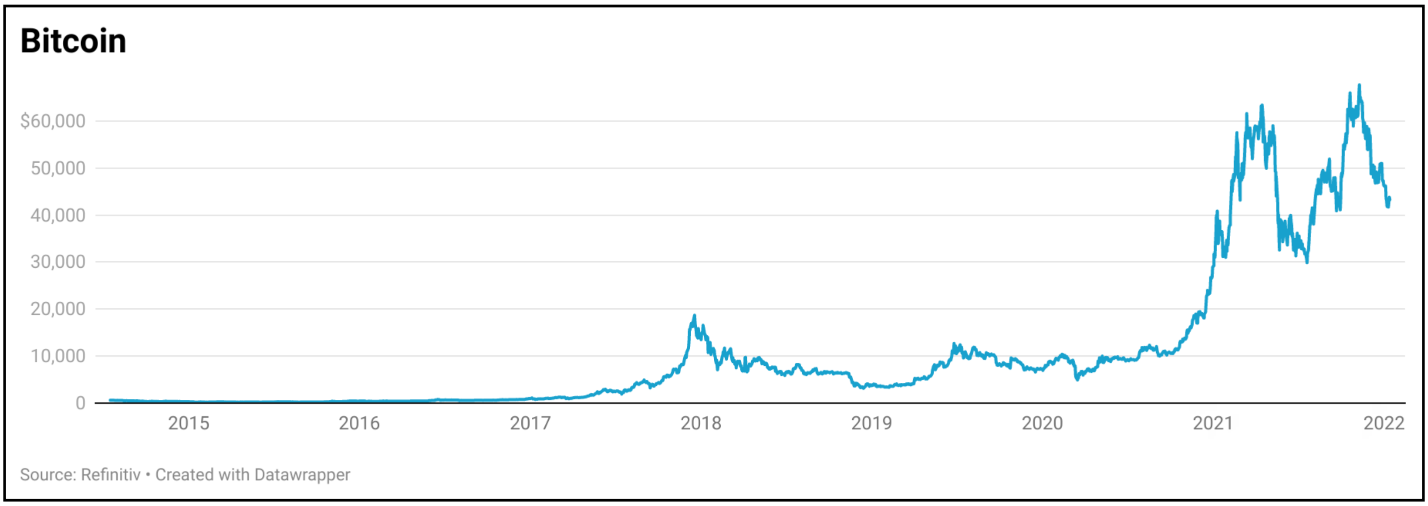
In order to generate the same return in the next 10 years as the last decade, the bitcoin price would need to rise to around £380 million per coin, or $520 million, at current exchange rates. Far-fetched doesn't begin to cover it.

CONSOLATION FOR THOSE WHO MISSED OUT

Those who have sat on the side-lines of the crypto craze can console themselves with the fact that the number of bitcoin believers who have captured the full 10-year return is probably as small as that number is large.

In 2012, bitcoin was little known, and those who did know about it would have just witnessed the hacking of the Mt Gox Bitcoin exchange the year before. Even if they had been brave enough to buy some coins, to enjoy the entire return of £11 million on a £1,000 investment, they would have had to casually sit by and not press the intense panic button as their holding fell by 73% in 2018.

Over 10 years they would also have had to watch their investment double in value 13 times without cashing in any



profits. Indeed in 2010, a US computer programmer called Laszlo Hanyecz spent 10,000 bitcoin on two pizzas, in what is widely regarded as the first ever cryptocurrency transaction. Those bitcoins would now be worth over £300 million. This story suggests that even the very early bitcoin adopters had no real inkling of what was to come.

WHAT GOES UP MUST COME DOWN

The risk with an asset that has appreciated so vastly is of course that the price peaks, and the subsequent fall is just as astonishingly sharp as its ascent. One only has to look back a little more than 20 years to the madness of the dotcom boom to recall companies that experienced rocketing share prices, only to become worthless after the bubble burst.

One dotcom darling which managed to weather the storm and still survives today is Nokia. An early investor buying €1,000 of shares in 1991 would have seen their holding swell in value to €398,280 at the peak in 2000, though that would have fallen back to €33,620 today. A more cautionary perspective is that €1,000 invested at the peak would now be worth just €84.

IS BITCOIN BITING THE DUST

As the bitcoin price tumbles, it's natural to ask whether the cryptocurrency is finally biting the dust. However the performance history of bitcoin suggests a bet in either direction on the cryptocurrency is a risky gamble.

Unlike a stock, bitcoin has no cash flows, no earnings, and no balance sheet, so the price is heavily influenced by sentiment, rather than any fundamentals. A tweet from the Tesla CEO Elon Musk can send the price spiralling in either direction. So while the price is falling rapidly right now, it could easily rebound with no real rhyme or reason for investors to cling on to.

Looking forward, the longer term future of cryptocurrency still hangs in the balance. Goldman Sachs just issued a fairly bullish note on bitcoin, which it sees increasingly usurping gold's role as a store of value. But it would have to exhibit far less volatility, gain much greater regulatory approval, and achieve a lower carbon footprint, before it made it significant inroads into mainstream professional investment portfolios.

Meanwhile the longer-term adoption of crypto as a means of exchange by businesses and consumers is still highly uncertain, especially given its volatility. Continued scrutiny and pressure from regulators on issues of consumer harm, money laundering, and environmental harm may also dent crypto prospects, as could central banks issuing their own digital currencies.

TRADING THE VOLATILITY

Some investors might not believe bitcoin is a long-term fixture in the financial ecosystem, but be tempted to trade the volatility, and buy the dips. Many of us will have heard or read about traders who have made small fortunes through buying and selling bitcoin. But this activity is closer to gambling than it is investing.

There's nothing wrong with that in moderation. Plenty of people buy lottery tickets, and place bets on all manner of things from football games to *Strictly Come Dancing*. But you shouldn't part with any money that you can't afford to lose. And if you do get lucky trading crypto, it's probably best not to splash out on a bottle of fizz before you've got the profits firmly in your bank account in pounds, dollars, or euros, because gains can disappear in the blink of an eye.

By **Laith Khalaf**
AJ Bell Head of Investment Analysis

Insightful commentary on market issues

DANNI HEWSON
AJ Bell Financial Analyst

Supermarkets' fight goes beyond price

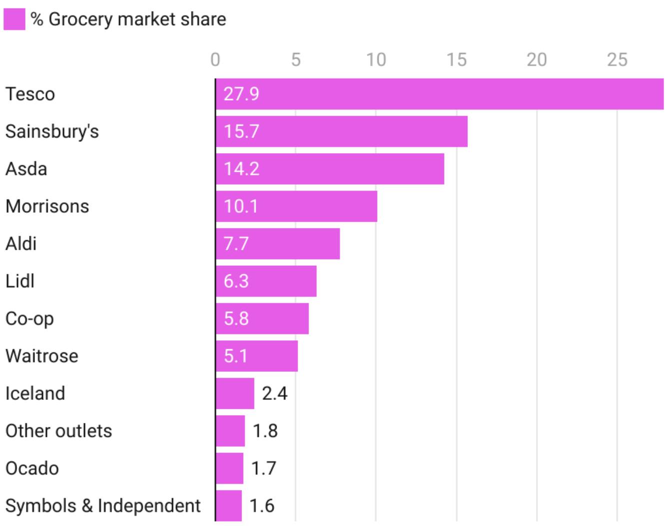
Innovation, store layout, product availability and online service standards are among the many other factors at play

Shoppers might be salivating at the prospect of supermarket price wars but for investors the coming battle raises some interesting questions.

Is price really the only weapon worth wielding, what kind of impact will the skirmishes have on profit margins, and can any of the traditional players really beat the discounters at their own game?

To get an idea of what's ahead it's smart to look at the latest trading updates. Christmas is always a money spinner for grocers and 2021 was no exception. While it couldn't quite live up to the bonanza that was December 2020, the latest figures from Kantar showed Brits spent £11.7 billion over the festive season, down just 0.2% on the same period a year before.

Supermarkets: Christmas market share



Data 12 weeks to 26 December 2021

Chart: Shares Magazine • Source: Kantar • Created with Datawrapper

Interestingly, both **Tesco (TSCO)** and **Sainsbury's (SBRY)** reported a decline in online sales over Christmas. This is perhaps explained by 2020's festive shopping season being a bumper one for the online channel, meaning there were tough comparative figures to beat a year later.

December 2020 was clouded by government restrictions over mixing with households, and so a lot of people opted for a low-key Christmas with a considerable number of orders for food and drink placed online.

A year later, while there was another backdrop of uncertainty – this time caused by the rapid spread of the Omicron variant – consumers did have more freedom to get out and about. That resulted in more people doing their food and drink shopping in-store.

CLEVER SALES TECHNIQUES

As we move into 2022, supermarkets continue to bet the house that shoppers will place value above all else when it comes to their purchases over the next year given how inflation is pushing up the cost of living.

A few supermarkets even absorbed some of the higher cost of goods over Christmas, particularly Sainsbury's which did its best to try and keep prices low.

DANNI HEWSON
AJ Bell Financial Analyst

Equally, the likes of **Marks & Spencer (MKS)** and Sainsbury's have recognised there is also a certain type of consumer who is happy to pay a bit extra to have something fancy. While both companies have been trying to keep prices low on the basics, they've also been innovating with products that use higher quality ingredients, and with that a higher price tag. Strong sales would suggest this strategy is working.

Quality has its own value, and it's the kind of sparkle that made Marks & Spencer the fastest growing food retailer in the UK over the last three months.

Being creative is mandatory to winning at the supermarket game. Go behind the scenes at a supermarket head office and you'll get some idea of the complexity of this sector and the lengths required to stay relevant.

Chefs spend months perfecting new products in bespoke kitchens before they're rigorously taste tested. Supermarkets then trial different packaging that will find a place in mock stores where their placement is worked out with mind boggling precision.

Just think about how you shop in somewhere like a Marks & Spencer food hall, how the perfect placement of naan bread, beer and raita next to your chicken tikka ready meal will have you making impromptu purchases without really thinking.

Marks & Spencer is a master of temptation and product innovation and it will need all the magic it can conjure up to keep pulling in customers and keep basket sizes growing when household budgets are shrinking.

THE COVID PAUSE IS OVER

In years gone by, customers' allegiance to their supermarket of choice was almost tribal. But the past decade has seen the demarcations blur as shoppers ditched the big shop in favour of little and often.

Supermarkets raced to retain their shopper by opening local stores and creating clubs which rewarded loyalty. But shoppers became savvier and were quite prepared to peck 'magpie like' at the best offers while gradually falling for the charm offensive being waged by the discounters.

Covid didn't just press the pause button on the evolution of the grocery trade, it forced something of a rewind. The one-stop big shop returned overnight, and traditional grocers became national heroes.

There was forward momentum when it came to online shopping and that ability to ramp up existing infrastructure helped the big players edge out the discount competition.

All eyes are now on life beyond the pandemic and supermarket bosses will be judged on how they steer their respective ships over the next 12 to 24 months.

Over the past few years, the sector has been through a massive stress test and fundamentally passed with flying colours – it was able to keep shelves stocked with food and drink, albeit with a few gaps, and the nation fed through a healthcare crisis.

The attention now shifts back to how to grow market share, and it won't be easy. A firm attention to pricing, product innovation, logistics, well-run stores, online capabilities, and data analysis will be key to winning the war.

BATTLE PLANS

Asda and Morrisons are both under new ownership following takeovers, which means time adjusting to new leadership teams could create a window of opportunity for rivals to take market share.

Emerging victorious from this latest round of price wars isn't really the prize, keeping tills ringing without sacrificing profit must be the ultimate goal or investors will give the sector short shrift.

Each retailer will have its own unique battle plan. Some may be eyeing acquisition as a path to growth, others will seek out new trends and simply do them better than the competition.

Unfortunately, competition will be fierce, particularly with hospitality hoping to pull back some of its lost trade and inflation showing no sign of cutting the consumer a break. That means supermarkets need to stay focused and always put the customer first.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Pension rules apply.

The best performing European small cap funds

Investment trusts investing in smaller companies on the continent have performed better than their open-ended counterparts

Investing in smaller companies often involves greater risk and volatility with the promise of higher rewards, and this perhaps explains why there is a significant disparity between the winners and losers in the European small cap funds space.

There's no disputing the star performer and it comes from the investment trust ranks – **Montanaro European Smaller Companies (MTE)** has an enviable track record on both a five and 10-year view.

Its strong performance might explain why it trades at a premium to net asset value of 2.3%.

The strategy is underpinned by an in-house team of 11 sector specialists which help to generate ideas for the fund. The emphasis is on quality stocks and the trust was ahead of the curve in factoring in ESG (environmental, social and governance) issues.

In the open-ended fund space **ASI European Smaller Companies (B0XWN47)** has doubled investors' money in the last five years. Managed by Andrew Paisley since 2018, it employs a rigorous selection process to identify stocks with growth and momentum. [TS]

European Smaller Companies funds ranked by 5-year performance

Fund	1 year	3 years	5 years	10 years
ASI European Smaller Companies A Acc	19.4%	72.5%	101.5%	237.7%
ASI Europe ex UK Smaller Companies Retail Acc	18.3%	68.4%	83.4%	378.9%
Threadneedle European Smaller Companies RNA	4.4%	50.9%	74.0%	286.9%
JPM Europe Smaller Companies A Inc TR	9.0%	52.0%	72.1%	281.3%
Schroder European Smaller Companies Z Acc	13.4%	49.2%	67.8%	310.6%
Lazard European Smaller Companies B Acc	14.0%	49.9%	58.8%	279.3%
Barings Europe Select Trust A Inc	8.8%	40.4%	57.9%	277.1%
Invesco European Smaller Companies (UK) Acc	9.9%	41.4%	44.7%	225.0%
M&G Pan European Select Smaller Companies R Acc	12.3%	45.1%	41.2%	205.1%
Benchmark: Unit Trust European Smaller Companies sector	**11.7%**	**54.7%**	**71.5%**	**280.2%**

Total return in sterling

European Smaller Companies investment trusts ranked by 5-year performance

Investment trust	1 year	3 years	5 years	10 years
Montanaro European Smaller Companies Trust	21.9%	138.2%	226.4%	534.6%
Janus Henderson European Growth Trust	11.7%	79.5%	98.3%	508.9%
JPMorgan European Discovery Trust	12.9%	59.5%	90.3%	355.9%
BMO European Assets Trust	19.9%	67.2%	73.9%	359.5%

Source: Source: FE Fundinfo, 13 January 2022. • Created with Datawrapper

How ProCook plans to conquer the kitchen

Small cap has flown under the radar of most investors since its recent IPO

Direct-to-consumer kitchenware specialist **ProCook (PROC)** debuted on the Main Market in November 2021 at 145p and the shares now trade at a modest 5% above their issue price.

The muted reaction to the stock market newcomer likely reflects the uncertain outlook for consumer spending and the fact ProCook remains under the radar of many investors.

Peel Hunt describes ProCook as 'a disruptive force in the specialist kitchenware market', one 'poised to grow strongly'. From a low base, its market share and brand recognition are growing rapidly and the business is generating 'sustainable 20%-plus EBITDA margins', according to the broker.

THE PROCOOK STORY

Founded more than a quarter of a century ago as a family business selling cookware sets by direct mail, Gloucester-based ProCook has grown into a specialist kitchenware company selling its wares both in stores and online.

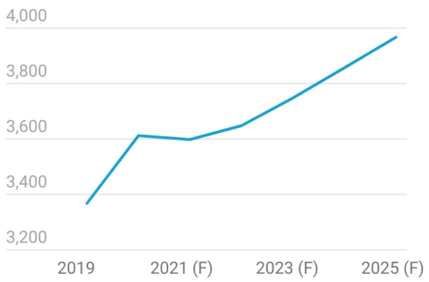
Guided by founder and CEO Daniel O'Neill, the £165 million business develops and sells quality yet value for money cookware, kitchenware and tableware direct to consumer through its own website and more than 50 own-brand UK brick and mortar stores.

ProCook also has an overseas growth angle, with its products also available in Germany and France with delivery options extending to Belgium, Austria, Luxembourg, the Netherlands, and Poland.

Its product range spans everything from pans and coasters to knives and eggcups, with its products 'of similar quality but 30%-to-50% cheaper than its competition' according to Peel Hunt, which in time, sees potential for ProCook to move into small kitchen electricals.

According to Euromonitor, the UK kitchenware market is currently worth about £3.6 billion and is growing at about 2% a year. 'It is a fragmented market', explains Peel Hunt, 'and in 2020 ProCook had a 1.6% market share. It has grown this share rapidly, with gains in each of the cookware, kitchen accessories and tableware markets.'

UK kitchenware market size (£m)



Source: Euromonitor International, Home and Garden 2021, from Peel Hunt • Created with Datawrapper

UK kitchenware competitors include **Tesco (TSCO)**, ASDA, **Sainsbury's (SBRY)** and Morrisons, as well as IKEA, John Lewis and specialist rivals such as Lakeland, Le Creuset, Denby and non-stick pots and pans maker Tefal, which has a presence in the direct to consumer market but mainly sells its products through other retailers.

Procook's key financials

Financial year to March	Sales (£m)	Adj PBT (£m)	EPS (p)	DPS (p)	PE Ratio
2021 (A)	53	9	6	n/a	25
2022 (F)	71	10	7	1	22
2023 (F)	84	12	9	3	17
2024 (F)	97	14	10	3	15

A=Actual, F= forecast. PBT=profit before tax. EPS=earnings per share. DPS=dividend per share. PE=price to earnings. PE based on 152p share price.

Source: Peel Hunt estimates, company accounts • Created with Datawrapper

DIRECT LINE INTO CUSTOMERS IS KEY

Covid-impacted 2020 proved a boom year for the UK kitchenware trade as people spent more time in their kitchens, though the market has been growing solidly for some time amid the popularity of cooking and baking shows on TV.

Having the ability to sell direct to customers 'is golden,' argues Peel Hunt. 'This gives ProCook a major advantage over the competition, as it controls every element of the product journey and the interface with the customer.'

Still a young retailer, ProCook continues to open new physical stores, 'often with no more than a 12-month cash payback,' according to Peel Hunt.

Recent openings include two stores at London's Westfield shopping centres and ProCook has communicated a long-term target of around 70 UK stores. One other interesting aspect is the company has also launched a London cookery school to showcase its passion for cooking and further raise brand awareness.

Maiden first half results (16 Dec 2021) confirmed robust sales growth and firm market share gains, with revenue up almost 35% year-on-year. This reflected strong growth through the ProCook website against tough pandemic-inflated comparatives.

As a whole, the group's e-commerce revenue declined by 3.7% year-on-year, though this was driven by management's strategic decision to come off the Amazon UK marketplace at the end of June 2021, in order to benefit from being able to build relationships with customers directly.

Physical store sales more than doubled year-on-year following the reopening of non-essential retail in April 2021 and were up 77.7% on a two-year like-for-like basis.

Eagle-eyed investors will note underlying pre-tax profit was 11% lower at £3.6 million, pegged back by higher digital marketing spend and other growth investments.

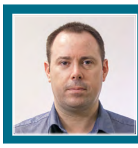
But this also reflected the fact ProCook makes most of its money in the seasonally stronger second half including Christmas. ProCook delivered a record Black Friday and despite higher freight costs, maintained its high gross margin of 67.8% thanks to direct sourcing. The resilient company has thus far coped well with industry-wide supply chain issues and cost inflation.

STRUCTURAL GROWTH

Following the maiden results, Peel Hunt pointed out the new store opening programme is 'firming up nicely, with landlords keen to help with upsizing and to get ProCook onto busy parks'. The broker also noted that overseas sales are building with the German ProCook website slated to open this spring.

Peel Hunt's forecasts for the year to March 2022 point to a rise in adjusted pre-tax profit from £9.3 million to £10 million, ahead of £12.4 million and £14.4 million for 2023 and 2024 respectively and the investment bank has pencilled in a 1.4p dividend for the current year, building to 2.8p in 2023.

Based on the broker's earnings estimates for 2023, ProCook trades on a mid-teens forward PE ratio of 16.7.



By **James Crux**
Funds and Investment Trusts Editor

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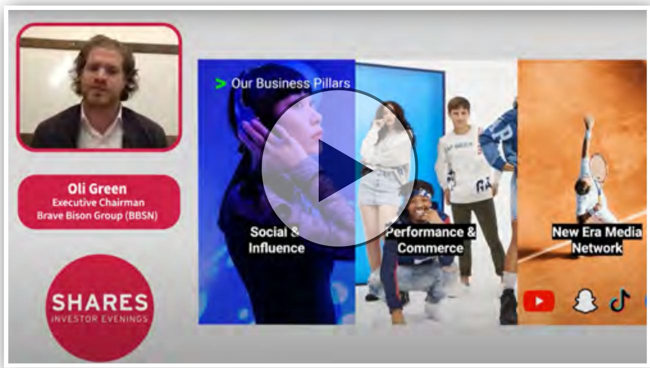
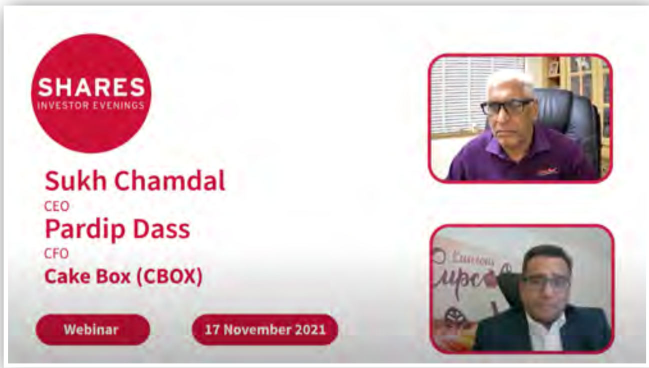


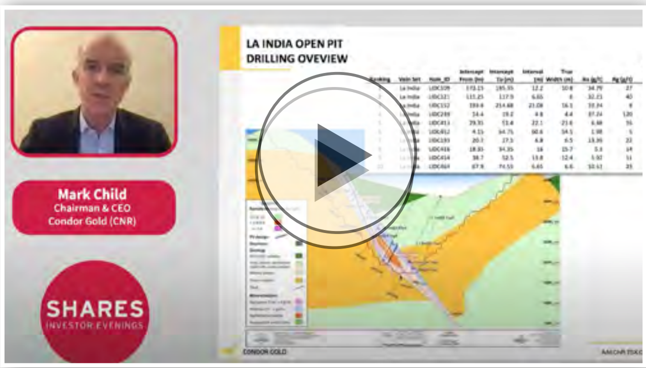
Brave Bison Group (BBSN)
Oli Green, Executive Chairman and
Theo Green, Chief Growth Officer

Brave Bison Group is the UK's challenger media and marketing company. The business combines a new-era media network, consisting of over 750 social media channels and websites, with digital-only marketing capabilities such as influencer, performance and ecommerce.



Cake Box (CBOX)
Sukh Chamdal, CEO &
Pardip Dass, CFO

Cake Box generates revenue from the sale of goods and services. Geographically, it derives revenue from the United Kingdom.



Condor Gold (CNR)
Mark Child

Condor Gold is a UK based exploration company focused on proving a large commercial reserve on its 100% owned La India Project in Nicaragua.

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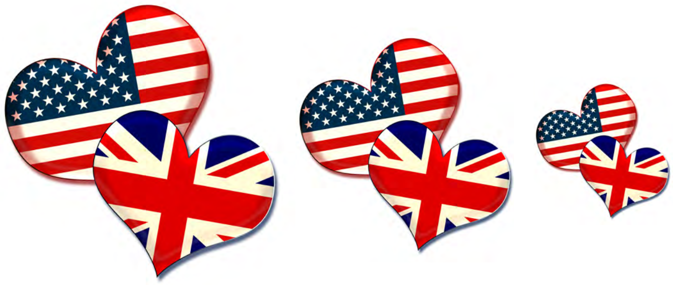

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
24 Jan: Velocity Composites. **25 Jan:** Oxford Biodynamics. **27 Jan:** IDOX.

Half-year results:
21 Jan: TheWorks.co.uk. **26 Jan:** Hargreaves Services, Scancell Holdings. **27 Jan:** Diageo, IG, NCC Rank. **28 Jan:** Hargreaves Lansdown.

Trading updates:
21 Jan: Close Brothers, Record. **24 Jan:** Computacenter. **25 Jan:** Capricorn Energy, TI Fluid Systems. **26 Jan:** Brewin Dolphin, DP Eurasia, Pets at Home, Sage, Wizz Air. **27 Jan:** Britvic, Euromoney, Empresaria, Greencore, Intermediate Capital, Mitie, Polymetal, PPHE Hotel.

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