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Companies which can ride out the storm



**4% INTEREST RATES:**

What further hikes from the Bank of England would mean for stocks

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Ian Lance, Portfolio Manager,  
Temple Bar Investment Trust



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# What now for European stocks as ECB unveils new record hike?



A debate is raging about the valuation of shares on the Continent

**T**he European Central Bank's decision to lift rates by a record 75 basis points (8 September) came as no surprise. After all it was playing catch up with its global counterparts in moving to address the current inflationary pressures by lifting rates.

The ECB has different considerations than other central banks because it has to manage the interests of a whole economic bloc but *Reuters* has reported sources outlining a scenario where rates may have to increase to at least 2%.

Given that prior to July's 50 basis point increase rates had been at our below zero for some time this would represent a big change and could exacerbate a downturn in the Eurozone economy.

What are the implications for European stocks and just what has been priced in by markets? There is no doubt the European market trades at a significant discount to the US market and materially below its long-term average. This has happened despite European earnings being upgraded by 14% in 2022 according to Morgan Stanley.

However, there's still a good chance European shares could get even cheaper in the eyes of the investment bank's equity strategy team, led by the widely-followed Graham Secker.

Secker and his colleagues see a risk that the price to earnings ratio for European stocks will hit 10 times, implying a double-digit fall from current levels.

They comment: 'We remain cautious on European equities against a backdrop of heightened geopolitical/energy uncertainty and where central banks continue to tighten monetary policy into a deepening economic slowdown.'

Secker and co also observe that the 17% increase in earnings per share forecast for 2022 would have been just 7% if you strip out the impact of the energy sector. They also argue forecasts for



2023 earnings growth of 2% look optimistic given a highly uncertain backdrop – not least the pressure on margins from soaring input costs. What about the longer-term picture though?

Writing in July before the most recent surge in gas prices which greeted Russia's shutdown of the Nord Stream 1 pipeline, BlackRock argued: 'Europe is home to many "best-in-class" companies that we believe are well positioned to help global governments meet their net-zero emissions targets.'

BlackRock adding that: 'We believe European stocks now represent good value for investors seeking to capitalise on recent market volatility to gain exposure to long-term structural trends – such as the shift to a net-zero future.'

The argument over European valuations won't dissipate soon, barring a miraculous turnaround in fortunes. What is true is European stocks are often unfairly overlooked by UK investors given the breadth and depth of the market and *Shares* will continue to look to mainland Europe for quality opportunities even as this valuation debate continues to rage.



By **Tom Sieber** Deputy Editor

# US inflation proves stickier than hoped as UK introduces energy bill freeze

Focus on Bank of England and US Federal Reserve

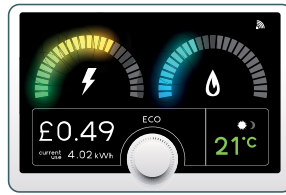
**T**o paraphrase US senator Robert Kennedy, we live in interesting times whether we like it or not.

With a change of monarch, a change of prime minister, an energy crisis, a weakening economy and rising interest rates, they are also uncertain times.

Fears about the inflationary backdrop were stoked once more by a reading of US inflation for August which came in hotter than expected, with CPI (consumer price index) up 8.3% year-on-year against the 8.1% forecast.

Perhaps of more concern was the fact core CPI (stripping out the impact of volatile food and energy prices) was up 0.6% month on month, double what had been pencilled in ahead of time.

The 75 basis points rate hike expected from the US Federal Reserve on 21 September now looks more of a certainty.



first time in a year in August to 9.9%, but prices for key items are still rising fast.

And while a slump in the UK economy might not be as deep as the 2008 financial crisis, it could last as long as warned Bailey. Yet, while it clearly

isn't in rude health, the economy continues to plod along.

June's disappointing growth in GDP (gross domestic product) was due in part to an extended bank holiday for the Queen's Platinum Jubilee, while July's recovery was slightly behind forecasts due to lower electricity and gas consumption as the country sweltered in 40-degree heat.

Much of governor Bailey's concern for the economy is rooted in fears of soaring inflation due to the October hike in energy prices and a consequent collapse in confidence and spending by businesses as well as consumers.

However, the news of a price guarantee and help for firms and households from the new administration may help.

The CEBR (Centre for Economics and Business Research) estimates that capping energy bills at £2,500 from October could reduce peak inflation by as much as 5% by early 2023.

And although average petrol prices are still around 25% higher than they were in 2021, they have been falling for the last two months which has eased some of the pressure on households, with the RAC predicting further falls to come.

In terms of growth, September will most likely be a sombre month in more ways than one with many events postponed, a more reflective bank holiday than usual and subdued trading in hospitality and in-store.

So, with both price rises and activity slowing, all eyes are on the Bank of England's meeting next week. [IC]

## UK Bank of England Base Rate

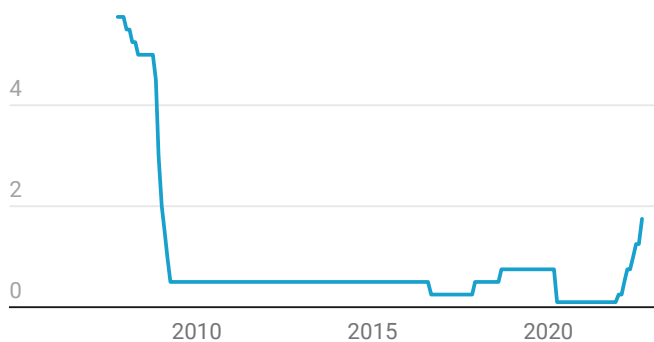


Chart: Shares magazine • Source: Refinitiv

Bank of England governor Andrew Bailey recently predicted a recession could start in the final quarter of this year, after the bank raised rates by the most in 27 years in order to head off double-digit inflation. Some comfort may have been taken from UK CPI data which showed inflation slowed for the

# UK tech in the sights of private equity again as GB targeted



Interest may lure industry peers into rival offer for identity and anti-fraud specialist as Darktrace suitor walks

**I**dentify data intelligence platform provider **GB Group (GBG:AIM)** has become the latest UK technology company to catch the eye of potential buyers after confirming talks with Chicago-based private equity firm GTCR.

No financials details have been disclosed so far although we do know that the discussions surround a possible cash offer. GB's shares rallied hard as the news hit the screens of investors, sending the stock up from 435p to 647p.

Conversely, private equity firm Thoma Bravo has walked away from a deal for cybersecurity firm **Darktrace (DARK)**, sending its stock plunging.

Investor buying had sent Darktrace stock surging from 377p to 540p when talks investigating a deal to take the firm private were revealed last month. Yet those gains were washed away after Thoma Bravo ended talks. Darktrace shares fell 32% to 350p, although the price has edged up to 388p since.

profit of \$1.46 million, versus the previous year's \$146 million loss. This was a strong performance driven by new customer wins that says a lot about demand for Darktrace's artificial intelligence cybersecurity tools.

The company added more than 500 clients in the fourth quarter bringing its full-year total to over 7,400, up 32%. It is also improving its ARR (annual recurring revenue) retention rate, from 103.1% to 105.5%. Growth came from all angles, with its biggest US market up 34% to \$143 million, albeit with a \$3.8 million revenue recognition adjustment.

Back to GB, and analysts believe an offer would have to come in above 700p if it is to have any chance of turning heads at board and shareholder level.

Analysts at Megabuyte calculate GB's EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) at around 22 times once the news broke, versus about 17.5 times before.

'There is precedence for a high-20 times offer,' said Megabuyte's Indraneel Arampatta, who pointed to compliance software supplier **Ideagen (IDEA:AIM)**, which is currently being courted by Hg at around 28.7-times EV/EBITDA.

The interest comes after a good set of 2022 results (to 31 March), in which GB grew adjusted operating profit by 2% to £58.8 million on revenue up 11% to £242 million. The company also anticipated a strong 2023, with profits anticipated up 22% to £72 million on revenue up a similar amount to £297 million.

Analysts at Peel Hunt believe a trade buyer from the credit agency industry could easily emerge to up the ante. This could include the UK's **Experian (EXPN)** or **TransUnion (TRU:NYSE)** of the US. [SF]

## Darktrace

(%)

0

-50

Oct  
2021

Jan  
2022

Apr

Jul

Chart: Shares magazine • Source: Refinitiv

Interestingly, the Darktrace news was announced alongside full year to 30 June 2022 figures that saw the company chalk-up its first ever annual net

# Two new alternative investment trusts prepare for main market listing

Farmland makes a comeback and assisted living sector to expand

**T**here was interest this week in two new investments trusts coming to market, each promising an inflation linkage aimed at offsetting potentially higher costs and interest rates.

First up is **The Sustainable Farmland Trust** which aims to raise £200 million to invest in US agricultural assets.

The US company behind the trust, Intl Farming Investment Management LLC (IFC), has more than \$2.2 billion of group assets under management and a track record dating back to 2009.

The trust will invest at least half the money raised in 'a performing and diverse portfolio of US farmland assets' held in an existing private fund run by IFC as well as investing directly in farming, agricultural supply and infrastructure assets in the US.

The company claims farmland assets are historically negatively correlated with equity markets but positively correlated with higher inflation.

It is targeting a net initial yield of 4.5% with an NAV (net asset value) target return of between 7% and 9% based on the 100p issue price and a management fee of 1% per year.

*Shares* readers may recall a similar trust – Global Sustainable Farmland Income – was slated to launch in early 2020 but failed to generate enough interest, so it will be interesting to see if the market is more receptive this time.



The second new trust on the launchpad is **Independent Living REIT**, which is aiming to raise £150 million to invest in 'supported housing assets which are let to compliant tenants'.

The company is targeting three areas for investment: specialized supported housing for adults with learning difficulties, mental health issues or physical disabilities; extra care for adults aged 55 and over who need specialist care; and homeless accommodation.

Rents are expected to be funded by the Department for Work and Pensions with annual uncapped inflation-linked uplifts, while at the same time generating 'material savings' for UK taxpayers compared with the cost to the NHS of keeping patients in hospital.

Atrato Partners, the firm behind **Atrato Onsite Energy (ROOF)** and **Supermarket Income REIT (SUPR)**, is acting as investment adviser to the trust, which is targeting an initial annual dividend of 5p per share and an NAV total return of between 7% and 10% per year.

Helpfully for investors there are already a couple of trusts against which to compare this new arrival in the form of **Home REIT (HOME)** and **Impact Healthcare REIT (IHR)**, which cater respectively for homeless people and those with long-term physical and mental care issues. [IC]



# High-quality drinks pick Pernod Ricard sells at a tasty discount to peers

The cash-generative spirits and wines seller is in an upgrade cycle and trades at an unwarranted discount to Diageo



**I**nvestors who've been richly rewarded by backing alcoholic drinks maker **Diageo (DGE)** should buy another large cap consumer defensive with tasty long-run growth prospects, namely its smaller spirits rival **Pernod Ricard (RI:EPA)**.

Shares in the French drinks group are trading on a prospective price earnings ratio of 20.6 for the year to June 2023, falling to 18.9 for 2024 based on estimates from Berenberg, a not-to-be-missed discount relative to the firm's own history, EU consumer staples and close peer Diageo.

This is an attractive point of entry into a high quality, prodigiously cash generative company whose competitive advantages include a portfolio of prestigious brands and one of the best routes to market of any global spirits business.

We share Bank of America analyst Andrea Pistacchi's view that Pernod Ricard offers exposure to 'resilient earnings in the current environment, with its geographic diversification and portfolio which should be relatively protected from potential trading down'.

## PRESTIGIOUS PORTFOLIO

For the uninitiated, Pernod Ricard is the world's number two wines and spirits producer and owns 17 of the top 100 spirits brands, yet like Diageo, still has significant scope for growth in a fragmented global drinks market.

The firm's drinks portfolio, covering all drinks occasions and price points and distributed across more than 160 markets, spans everything from Absolut Vodka and Ricard pastis, to Chivas Regal and The Glenlivet Scotch whiskies.

Other brands Pernod Ricard sells include Jameson Irish whiskey, Martell cognac, Havana Club rum, Beefeater gin and Perrier- Jouët champagne.

## PERNOD RICARD

**BUY**

(RI:EPA) €192.6

Market Cap: **£42.9 billion**



Euronext-listed and part of the CAC 40 and Eurostoxx 50 indices, Pernod Ricard, company strapline 'Créateurs de Convivialité', is stewarded by its thoughtful chairman and CEO Alexandre Ricard – the Ricard family has a 14.27% stake.

He has skewed the portfolio to the high-growth super-premium segment and insists 'there has definitely been a newfound appreciation for conviviality since the Covid outbreak'.

## RIGHT PLACE, RIGHT TIME

Pernod Ricard is exposed to favourable consumer trends, with spirits taking a greater share in total beverage alcohol and the drinks market undergoing 'premiumisation', a trend which sees consumers drinking less but spending more on premium tipples.

One of the most exciting aspects of the story is

## Regional organic sales growth in year to June 2022

% Growth by region



Chart: Shares magazine • Source: Pernod Ricard presentation

## Pernod Ricard

Year to June	Net sales (€m)	EPS (€)	DPS (€)
2021	8.83	6.16	3.12
2022	10.70	8.18	4.12
2023 (F)	11.70	9.36	4.65
2024 (F)	12.20	10.17	5.05

Table: Shares magazine • Source: Company data, Berenberg

that Pernod Ricard offers a play on a global legal drinking age population set to grow at a compound annual growth rate of 1.3% between 2020 and 2025, largely driven by emerging affluent middle classes in China and India.

The business is also embracing technology to ensure it remains relevant in the future, relying on its 'Conviviality Platform', a new growth model based on data and artificial intelligence, to meet the ever-changing demands of consumers.

### STIRRING UP GROWTH

The £42.9 billion cap served up (1 September) forecast-beating results for the year to June 2022, with sales bubbling up 17% organically to a record €10.7 billion as Pernod Ricard distilled double-digit growth across all key regions, namely the Americas, Asia-Rest of World and Europe. The company delivered market share gains in most markets and flexed its pricing power muscles to achieve price increases across all markets, of 'mid single digit on average' according to Pernod Ricard.

While Pernod Ricard's finished the year with a 2.4 times leverage ratio, mainly the result of spending related to earlier acquisitions and last year's €750 million share buyback, 2022 was a year of record high cash generation. In a show of confidence in its future prospects and cash generation, Pernod increased the dividend by 32% to €4.12 per share and announced a new



€500 million to €750 million share buyback for the new financial year.

Berenberg, which has a €235 price target implying 22% upside, forecasts pre-tax profits growth from €2.8 billion to €3.2 billion this year, ahead of almost €3.5 billion in fiscal 2024. The broker likes Pernod Ricard's exposure to super-premium spirits and its track record of self-help margin expansion and notes the company has one of the largest exposures to the recovery in global travel retail as international travel recovers.

Crucially, Berenberg also believes that Pernod Ricard is in the early stages of an earnings upgrade cycle, 'driven by management's greater focus on operating leverage'.

Bumper gross margins above 60% suggest Pernod Ricard can cope with current inflation in input costs. In fact, Ricard and his team intend to deliver gross and operating

margin expansion in the current financial year through a cocktail of cost efficiencies, further price increases and a positive sales mix, hopefully helped by a recovery in China and travel retail volumes in Asia.

Among the risks to consider are the potential for Pernod Ricard to overpay for acquisitions or significant increases in alcohol excise duties in lucrative markets such as the US, France, China, Spain and India, which could negatively affect the spirits producer's tasty profit growth trajectory. [JC]

# Grab a slice of top performing Bellevue Healthcare Trust at a discount to NAV

A great way to get exposure to companies driving change to tackle ageing populations and creaking healthcare systems

**T**he **Bellevue Healthcare Trust (BBH)** has built an enviable track record since launching in 2016. *Shares* believes the 5.6% discount to NAV (net asset value) presents investors with an attractive entry point.

The trust has delivered three-and five-year total returns in NAV of 70.3% and 91.8% respectively, comfortably beating its benchmark (MSCI World Healthcare) returns of 48.6% and 71.2%.

Dividends have grown in double digit percentages since launch. In 2021 the company paid 6.03p per share which represents a trailing yield of 3.4%.

Historically the healthcare sector has provided relative defensiveness and perhaps surprisingly, good protection against rising prices.

## A DIFFERENTIATED APPROACH

The trust is managed by Bellevue Asset Management, part of Swiss investment manager the Bellevue Group.

Portfolio managers Paul Major and Brett Drake have more than two decades of healthcare experience each.

The managers start from the premise that the

## BELLEVUE HEALTHCARE TRUST

BUY

(BBH) 177.4p

Market Cap: £1.04 billion

Discount to NAV 5.6%

CAUTIOUS INVESTOR

STOCK



Western healthcare systems are not fit for purpose. They argue the systems are very costly to run, wasteful and therefore unsustainable.

The strategy addresses all stages of patient interactions and costs within the healthcare system focusing on investments aimed at providing solutions to the cost challenge. Some of the key themes include greater integration of technology, innovation in therapeutics and novel treatments, increased diagnostic personalization, population genomics and shifting payment models.

Within these themes the managers undertake bottom-up fundamental analysis to isolate the most promising stock candidates. The team construct a high conviction, concentrated portfolio currently consisting of 29 names selected for their three-to-five-year return potential. Portfolio turnover is low.

It is worth noting around 77% of the portfolio is invested in mid and small-cap companies which means the value of the trust swings around more than the benchmark. Approximately 95% of the portfolio is invested in the US compared with 73% for the benchmark.

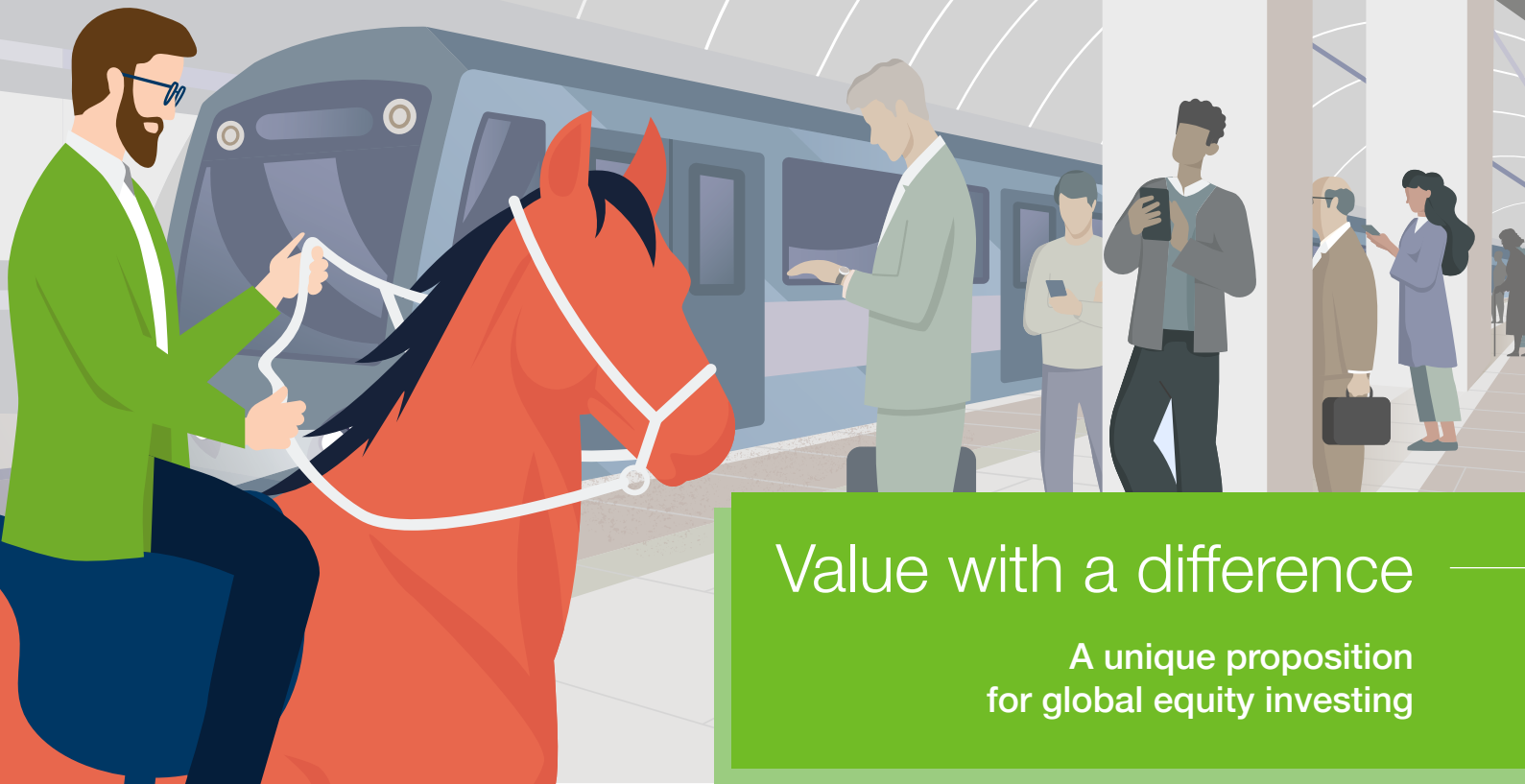
The managers point out that during times of heightened uncertainty, investors often flock to the relative safety of mega-cap pharma which can harm short-term performance, given the trust's relative underweight position in larger companies.

The trust has an ongoing charge of 1.08% a year, slightly higher than other listed healthcare trusts, **Polar Capital Global Healthcare (PCGH)** (0.92%) and **Worldwide Healthcare (WWH)** (0.85%). [MGam]

## Bellevue Healthcare



Chart: Shares magazine • Source: Refinitiv



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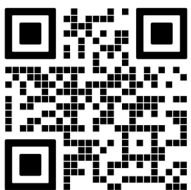
Once an investment has been made, we seek to establish a good relationship and actively engage with the managers, board directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies—for the benefit of all.

AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever, and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

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\*As at 31 January 2022

±As at 31 January 2022, holdings >1% of NAV

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AVI  
Asset Value Investors

# Why CentralNic should end constant share placings to fund M&A

Sea of earnings adjustments from acquisitions has held back the share price

## CENTRALNIC

(CNIC:AIM) 116.5P

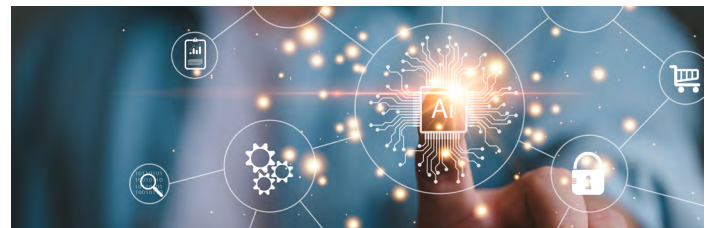
**Loss to date: 18.5%**

Small cap internet expert **CentralNic (CNIC:AIM)** continues to stubbornly frustrate shareholders even in the face of continued rapid growth.

Since shifting focus from domain name management to online marketing services the company has produced a series of guidance hikes and rampant growth metrics that promise to catapult revenues and profits to new records this year. Yet the stock remains as ignored by the wider market as ever.

### WHAT'S HAPPENED SINCE WE SAID TO BUY?

If we take Berenberg's expected 2022 forecasts at face value, it implies that revenues will have almost tripled in two years to roughly \$600 million while adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) will have gone from \$29 million to \$70 million.



Since November 2021, when we originally said to buy the stock, the share price has plunged 18.5%. Obviously, the market's shift away from growth as inflation soars has hurt the investment case, yet the financial performance continues to race ahead.

In recent first-half results (30 Aug) CentralNic reported revenues up 93% to \$335 million, 62% of that growth organic. This was propelled by Online Marketing, which grew 167% (98% organically) to \$258 million. Its domain names business was basically flat at \$76.8 million, demonstrating management's eye for developing the business as opportunities and markets change.

### WHAT SHOULD INVESTORS DO NEXT?

Presumably, the market's reluctance to give CentralNic credit is due to its constant use of equity issues to fund acquisitions. This has capped earnings per share (EPS) growth to 57% in two years versus 141% EBITDA growth over the same timeframe. With a forecast \$51 million of free cash flow anticipated this year, according to Berenberg, perhaps management needs to stop issuing new shares and start funding M&A from existing resources.

Net debt at the end of this year is estimated at \$52 million, so the balance sheet is far from extended. This would surely change the market's view of the company, reducing the stream of adjustments to earnings and delivering the re-rating the share price seemingly deserves.[SF]

# RETAIL SURVIVORS

Companies which can ride out the storm



By James Crux  
Funds and Investment Trusts Editor

**T**he retail sector has had a dire 2022, heavily sold off on fears earnings will disappoint as households curb spending due to rising UK inflation and the energy price crisis.

Earnings expectations have been cut and investors have priced in a recession already, which means bargain hunters may take the view retailers are now oversold, particularly as prime minister Liz Truss' energy price guarantee will put some cash back in the pockets of hard-pressed consumers.

Given this challenging backdrop, investors need to be highly selective when it comes to retailers and focus solely on those with strong competitive positions and fortress balance sheets. Retailers that survive the crisis should emerge with enhanced market share opportunities as competitors will have fallen by the wayside, while the losers will

be left with battered finances and diminished prospects, if they make it through the crisis at all.

## CONSUMER CRUNCH

Though the consumer has held up well so far, supported by pandemic savings in many cases, soaring utility bills will leave less discretionary income for shoppers to spend on goods and services, a nightmare for retailers already struggling with cost inflation.

Consumer confidence has fallen to historically low levels, with GfK's long-running Consumer Confidence index decreasing three points in August to -44, the lowest since records began in 1974.

According to the ASDA Income Tracker, UK discretionary income saw a 16.5% contraction in July. As measured by the BRC-KPMG Retail Sales Monitor, UK retail sales were marginally ahead year-on-year in August, up 1% versus a robust 3% comparative, but this performance was boosted by clement weather, notably around the Bank Holiday, and as Shore Capital suggests, was 'perhaps a calm

before an energy hit autumn storm’.

Consumers are having to fork out more for essentials such as energy, transport and food, with the under-30s age group impacted the most by rampant inflation, which means they are having to cut back on non-essential items such as clothing and DIY products.

## Who looks safe and who's in the danger zone?

Survivor	Jury is out	Vulnerable
Next	Marks & Spencer	ASOS
Shoe Zone	B&M	Boohoo
Frasers	Primark	Kingfisher
WH Smith	Halfords	Currys
JD Sports Fashion		AO World
		DFS Furniture
		Made.com

Source: Shares magazine

## LIKELY SURVIVORS

Little wonder then that shares in high street bellwether **Marks & Spencer (MKS)** have declined 50% year-to-date at the time of writing, with fashion seller **Next (NXT)** and home improvement giant **Kingfisher (KGF)** both down by around 30%; tellingly, Kingfisher is among London's top five most shorted stocks along with online fast-fashion retailers **Boohoo (BOO:AIM)** and **ASOS (ASC)** according to Shorttracker.co.uk.

Led by experienced retailer Simon Wolson, Next looks better positioned than many other sector peers due to its strong balance sheet, robust cash flows and high margins, which should provide a cushion in the tough times ahead.

The cost of living crisis is driving demand for great value products, which should play to the strength of discount retailer Primark, the hawk of cheap fashion that was one of the few retailers to maintain positive like-for-like sales during the financial crisis.

However, shares in parent **Associated British Foods (ABF)** plunged to multi-year lows on a profit

warning (8 September) pinned on margin pressure at Primark, having to absorb rising costs caused by surging energy prices and a strengthening US dollar.

The retailer has also decided not to push prices too far to help maintain its value credentials for its customers. Short-term pressures notwithstanding, Primark should benefit as shoppers trade down from more expensive retailers, though we concede its core customer demographic is really feeling the pinch.

Primark's survival looks assured given the strong balance sheet run by Associated British Foods and the company's conglomerate structure which sees it derives revenue from food processing.



Other retailers targeting lower income consumers include **B&M European Value Retail (BME)**, the variety discounter in a very favourable space given the squeeze on consumers' finances.

The shares are down sharply year-to-date as B&M has found it difficult to fully pass through cost inflation and consumer behaviour has proved unpredictable, while analysts have expressed concerns over inventory levels and B&M's loss of price food leadership.

Bucking the sector-wide de-rating is **Shoe Zone (SHOE:AIM)**, the discount shoes, slippers and boots seller which recently (31 August) delivered its third earnings upgrade in as many months off the back of strong August trading driven by bumper demand for summer and 'back to school' products and ongoing margin improvements resulting from good supply chain and cost management.

As Zeus Capital points out, Shoe Zone's attractive value proposition means it is 'well placed to win market share as consumers seek more affordable alternatives against the current backdrop of high energy costs and food price inflation'.

Also famed for its value proposition is Sports Direct, the sportswear chain at the heart of Mike Ashley's retail conglomerate **Frasers (FRAS)**. Sports Direct controls the value end of the UK sporting goods market and through Flannels, Frasers has

## RETAILERS UNDER FINANCIAL PRESSURE

The finances of the retail sector already bear the scars of a period when they were effectively unable to trade normally due to Covid restrictions.

This means many retailers could find it harder to weather the current consumer storm caused by the cost-of-living crisis.

The table shows companies with an Altman Z-score of less than 1.8 according to data from Stockopedia. The Z-score was developed by Edward Altman, an assistant professor of finance at New York University, in the late 1960s. It looks to analyse a balance sheet to identify the risk of bankruptcy and a score below 1.8 indicates a high probability of financial distress within two years.

Eyebrows may be raised by the presence of WH Smith on the list. While it is carrying significant debt, both as a result of the pandemic and thanks to acquisitions aimed at growing its travel division, its scale and track record plus the fact a significant chunk of its liabilities relate to leases on its shops provide some comfort.

The presence of leaseholds on the balance sheet probably doesn't help the scores of other names on the list, though there may be particular concern about sofa seller **ScS (SCS)** given it sells the kind of big-ticket items which hard-pressed consumers are likely to think twice about buying in the current climate. [TS]

### Retailers under financial pressure

Company	Altman Z-Score trailing 12-months
The Works	0.95
Card Factory	1.02
Superdry	1.05
Moonpig	1.43
WH Smith	1.47
Currys	1.62
SCS	1.70

Table: Shares magazine • Source: Stockopedia, data as at 8 September 2022

a leading position in UK luxury – two areas that should prove robust.

## JD A STEP AHEAD

Another name in negative share price territory this year is athleisure leader **JD Sports Fashion (JD)**. Given its focus on the youthful demographic, the market evidently thinks the 'King of Trainers' could struggle as consumer incomes are squeezed. Yet JD Sports is an international business with strong relationships with Nike and Adidas, while its net cash balance sheet leaves it well-placed to survive the crisis. As Shore Capital argues, 'JD's differentiated offer allows the retailer to distance itself from the highly promotional environment'.



Books, stationery and snacks seller **WH Smith (SMWH)** continues to exhibit resilience, generating cash by running its legacy high street stores business as efficiently as possible while investing in its international travel business as the growth engine of the group. The fact travel sales are now above pre-pandemic levels is very encouraging.

Also proving its robustness is car parts-to-bicycles seller and autocentres operator **Halfords (HFD)**, which reported (7 September) resilient trading over the 20 weeks to 19 August 2022 and maintained full year profit guidance in the £65 million to £75 million range. Over 70% of Halfords' sales now come from motoring products and services, an area of spend that tends to be more needs-based rather than discretionary. Buying a new bike is unlikely to be a priority for cash-strapped households, but Halfords can afford to lean on the motoring business and wait for the next upswing in demand.

The needs-based nature of greetings cards, which people purchase for annual and everyday events, makes this a resilient space too. Step forwards **Card Factory (CARD)**, the value cards and gifts retailer which has scope to raise prices while still leaving its products cheaper than rivals.

## LIGHTS FLASHING RED

Retailers without a distinctive proposition or with fragile business models or weak balance sheets are in for trouble. Marks and Spencer's clothing and home business lacks the value credentials of a Primark, while its margins are lower than those of Next, suggesting it might be less resilient in a downturn, though it has come through periods of pain in the past.

The outlook for digital fashion retailers ASOS and Boohoo is gloomy given their online-only businesses models generate skinny margins and they sell to a younger customer cohort being hammered by the cost-of-living squeeze.

The pandemic-inflated home improvement boom is also fading, bad news for B&Q-owner Kingfisher and **Wickes (WIX)**, as well as other discretionary retailers including **Topps Tiles (TPT)** and even sector star turn **Dunelm (DNLM)**, though the UK homewares leader's keenly priced-yet-quality home furnishings will resonate with price sensitive shoppers and Dunelm has successfully navigated past periods of consumer uncertainty.



With consumers avoiding big-ticket purchases, expect furniture sellers **DFS Furniture (DFS)** and beleaguered **Made.com (MADE)** to find things tough. An emergency fundraising might be on the cards at online furniture purveyor and initial public offering (IPO) flop Made.com as rising essentials inflation squeezes household spending. Investors should also be mindful that consumers stocked up on laptops and new TVs during lockdowns, so **Currys (CURY)** and **AO World (AO.)** will struggle to grow sales in the months ahead.

One of the retail sector's biggest casualties is 'British lifestyle group' **Joules (JOUL:AIM)**, the wellies-to-outwear purveyor whose shares have plunged following a string of profit warnings that have pressured the balance sheet, though they did rally on news Next was poised to inject some cash by taking a strategic minority stake – 'positive discussions' continue.

Though CEO Julian Dunkerton has steered apparel retailer **Superdry (SDRY)** through the

pandemic and it has comfortable financial headroom, we would be wary of the potential for near-term downgrades here, as hard-pressed shoppers can always defer the purchase of Superdry's premium clothing, accessories and footwear.

## KEY PICK – NEXT (NXT)

£57.66



Shares in Next have plunged from their September 2021 peak, but only the brave would bet against the best-in-class retailer's equity reclaiming those highs on a medium-to-long term view.

Admittedly, the Simon Wolfson-led clothing and homewares chain isn't immune to the headwinds facing UK retailers, but Next is better at managing them than most and is delivering robust sales in physical stores and a resilient showing online. Long-term growth prospects for the business look better than they have done for some time, as less durable rivals like Topshop and Debenhams have disappeared from the high street, enabling Next to gobble up market share.

There is also growing excitement over the potential of the 'Total Platform', which sees Next leveraging the expertise, infrastructure and software it has developed for its own online business to provide an e-commerce outsourcing service for third party brands.

This is allowing the retail giant to offer more products on its website which makes it more attractive to customers, and it also earns a fee from clients for handling their e-commerce needs. Cash generation remains a key plank of the investment case, with the retailer returning cash to shareholders through earnings enhancing share buybacks.

# Property portfolios & the benefits of alternative thinking

## TR Property Investment Trust



*Against the backdrop of structural and regulatory change it makes sense to consider alternative approaches to the traditional property model.*

### Traditional portfolios – causes for concern

There are several trends at play – some posing challenge, others opportunity. The pandemic accelerated themes like the transition to online retail and re-examination of office space suitable for the 'hybrid' working model just two examples. Traditional bricks & mortar portfolios can find themselves on the wrong side of these shifts.

### Time to rethink – real estate securities unlock 'alternative' property

Avoiding the high street and old office space sounds simple but legacy real assets can be a challenge to exit. Liquidity, however, becomes a minor issue when investing in property via listed real estate through a universe like the FTSE EPRA/NAREIT Developed Europe Index. Here it is possible to tap into a fast-evolving and geographically diverse opportunity set rich in 'alternative' sub-sectors.

### Retail – selective thinking

UK high streets are under pressure but there's growth in well-located retail parks and premium discount outlets. Convenience and 'click & collect' shopping are in vogue and as we buy more online there's a boom for last mile delivery and urban warehousing property assets. Logistics has been an obvious beneficiary and although we've seen yield

compression there remain opportunities in land rich quality businesses both in the UK and Europe.

It's also important to consider how opportunities vary by location. The UK is further along the online retail road than continental Europe so you may want to avoid UK shopping centres, but affordable rents and higher footfall mean their European counterparts remain selectively attractive.

### Perspectives on healthcare

Elsewhere, sectors like healthcare, social housing, self-storage, and student accommodation look interesting. The former is a diverse sector, so it pays to be selective. Just now, we place an emphasis on premises utilised by primary healthcare providers like the NHS but are cautious on nursing homes where margins look relatively thin. Of course, we're not the only ones with a positive take on these areas so we use market volatility to build positions when the price is right.

### Keep property in the mix

We are long-term proponents of the merits of accessing property via listed real estate, either solely or in combination with select physical assets. It's an approach that allows us to sidestep the challenges facing more traditionally structured portfolios and harness opportunities that lie beyond their reach.



### Risk Disclaimer

Views and opinions expressed by individual authors do not necessarily represent those of Columbia Threadneedle Investments.

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The value of directly-held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

# What would interest rates at 4% mean for investing in stocks?



Rising rates will benefit value stocks and those with pricing power



**A** less globalised economy, the Russian invasion of Ukraine and the supply chain disruptions caused by Covid, (particularly in China), have caused a surge in inflation.

UK inflation is running at the fastest pace in 40 years, rising from 9.4% to 10.1% in July. This marks a continued structural shift in the cost of goods and services that is squeezing discretionary spending. This is important because consumption constitutes the largest constituent (over 60%) of the UK economy, and as it slows so will the UK economy.

At the same time central banks have been forced to raise interest rates in an attempt to tame inflation. Money markets, which see trading in very short-term debt, suggest that interest rates will hit 4% by next spring.

## A BIG CHANGE FOR INVESTORS

This has significant implications for investors. First, the interest rate you receive on a savings account will rise. This along with the yield from long-term

government bonds is sometimes used as the so-called 'risk-free rate'.

The flip side of this is that the additional return that investors will require for holding shares as opposed to the return they would receive on a savings account (the equity risk premium) will also be higher.

This is likely to make investors more cautious about investing in stocks and increases the appeal of holding cash. However, over the long term shares as an asset class have proven to outperform bonds and the return derived from cash.

An inflationary and rising interest rate environment will tend to increase the appeal of value stocks relative to growth stocks. This is because during a period of rising interest rates current earnings become more highly valued while investors are less willing to pay up for cash at some point in the future.

Businesses with pricing power (the ability to increase price without experiencing a loss in demand) are also likely to prosper in the current

environment. Rising costs can erode a company's profit margins, and ultimately investor returns. Pricing power can help companies fight inflation and protect their margins by passing costs along to the customer.

## DASH FOR CASH

Given the increasingly bearish macro-economic backdrop the appeal of cash versus other asset classes including bonds, stocks and gold is likely to rise. In recent decades holding cash has been perceived as being overly defensive and the paltry returns on offer were outpaced by inflation, even when inflationary pressures were much less acute than they are now.

This view was cogently articulated from a US perspective in a recent research note by the Morgan Stanley strategy team.

Their key finding was that except for two years (2013 and 2018), US dollar cash underperformed both the S&P 500 and the US 10-year Treasury bond every year from 2010 to 2020. Morgan Stanley strategy believe that we are experiencing a regime switch arguing that for US dollar

## Best easy access savings rates

Provider	Rate (AER variable)
Zopa	1.81%
Shawbrook Bank	1.81%
Secure Trust Bank	1.80%

Table: Shares magazine • Source: Money Saving Expert 9 September 2022

investors, holding cash no longer detracts from a portfolio's yield.

US six-month treasury bills are currently yielding 3.1%, which is the highest level since late 2007. While the current interest rate returns in the UK are lower than in the US, they still signify a significant shift in the appeal of cash as an asset class.

For a one-year fixed rate UK savings account rates range from 3% to 3.35%. Easy access rates are in the 1.7% to 1.8% range. These rates look increasingly likely to rise in the coming months.

And yet over time, history would suggest it makes sense to hold stocks.

According to Barclays' annual Equity Gilt Study, UK share returns have averaged 4.9% a year after tax and inflation since 1900 – compared with 1.3% from UK government bonds and 0.6% from cash.

## THE INCREASING APPEAL OF VALUE STOCKS

Value stocks are those which trade at a lower level than their fundamentals (the underlying economic conditions, the state of the wider sector and their own financial performance) suggest they should.

As a result, they will typically also trade at lower price to earnings or PE multiples. The PE ratio is the share price divided by earnings per share.

Ken French is a professor of finance at the Tuck School of Business, Dartmouth College. He is most famous for his work on asset pricing with Eugene Fama.

Analysis based on data from French's own Data Library suggests that value stocks perform well when interest rates and inflation are high.

Critically stocks in the cheapest 30% of the market by price to book ratio (also known as price to net asset value) outperformed the most expensive 30% by 9.97 percentage points per year



## Best one-year fixed savings rates

Provider	Rate (AER variable)
United Trust Bank	3.35%
Virgin Money	3.32%
Tandem	3.30%

Table: Shares magazine • Source: Money Saving Expert, 9 September 2022

between January 1970 and December 1979, a period marked by persistently high inflation.

A growth stock refers to a company that's expected to increase its profits or revenue faster than the average business in its industry or the market broadly. Growth stocks are typically in demand when interest rates are low or falling.

During periods of low interest rates, there is often a flow of capital to companies that have good potential for growth, implying that investors are willing to pay a higher premium for the future growth of such companies.

An upward movement in interest rates changes the market's assessment of what a future stream of cash flow or earnings is worth today.

The critical point of distinction is that value orientated companies are valued on their near-term cash flow (current earnings) and are impacted less from any increase in interest rates. This is in sharp contrast to growth-orientated corporates where the majority of their value comes from long-term cash flows.

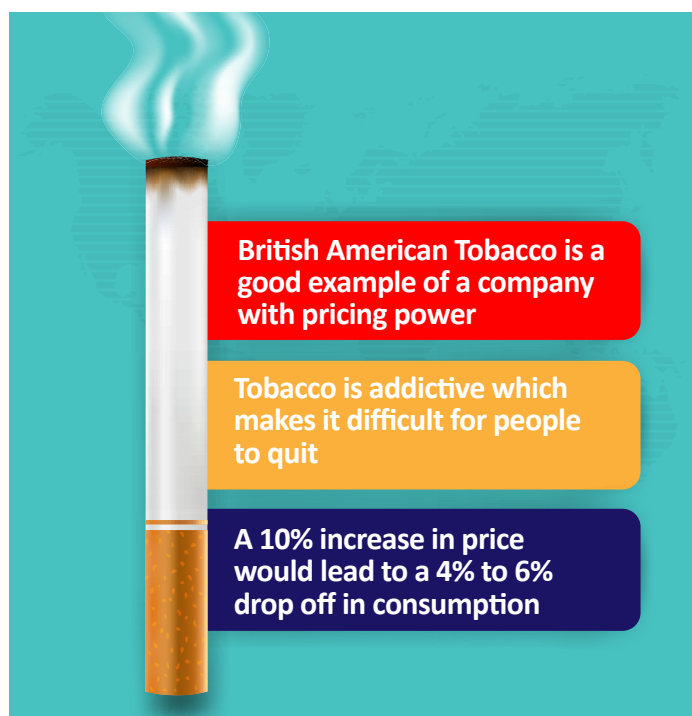
### THREE FORCES DRIVING THE ROTATION FROM GROWTH TO VALUE

- Typically value stocks are assessed on their current earnings while growth stocks are valued on their future earnings.
- In an inflationary and rising interest rate environment current earnings become more valuable and future earnings tend to become less valuable.
- Inflationary periods have favoured value stocks and deflationary periods have favoured growth stocks.

### THE IMPORTANCE OF PRICING POWER

Businesses with pricing power (the ability to increase price without experiencing a loss in demand) are likely to prosper in the current environment.

Tobacco giant **British American Tobacco (BATS)** is a good example of a company with pricing power, though there are obvious regulatory and ethical considerations to factor in.



Tobacco is addictive which makes it difficult for people to quit. The tobacco industry also operates in a highly consolidated market with the four largest companies controlling more than 80% of the market value.

Given the strong position of its global brands British American Tobacco has been able to continually improve the price mix. Finance director Tadeu Marroco told *Shares* in 2021 that the elasticity of cigarettes across the world was still very benign at 0.4 to 0.6.

In non-technical terms this means a 10% increase in price would lead to a 4% to 6% drop off in consumption.

The strength of the cigarette business is built on the group having strong global brands at every price point British American has led the US market on price over the last two years with eight price increases with no change in demand.

Given the highly challenging macro-economic backdrop investors may increasingly appreciate BAT's defensive traits as people find it hard to shake the smoking habit irrespective of their economic situation. It is highly cash generative and pays a 6.2% dividend yield.



By **Mark Gardner** Senior Reporter

# Cash rates are improving: this is what you need to know

Key things to consider if you want to stash money in a savings account

**U**nless you have been living in a particularly well-fortified and soundproof bunker, you will have noticed that UK interest rates are rising quite rapidly, as the Bank of England does its level best to combat spiralling inflation.

While that's not good news for anyone with high levels of borrowing, including mortgage debt, there is a silver lining for cash savers, who are now seeing significantly higher interest rates on offer.

The rising tide of interest rates is not lifting all boats to the same extent though, and savers usually need to look beyond high street banks and building societies to find the best offers.

The table shows a selection of typical instant access savings accounts from the high street compared to the best currently available on the market, according to Moneyfacts.

You may be able to get more from the high street banks if you fulfil certain conditions in terms of being a premium customer, or making limited withdrawals or regular deposits, but generally speaking, the standard flexible accounts offered by these providers are not very competitive.

As well as return on their capital, savers are wary



of return of their capital, which is why many of them probably stick with well-known high street names. That's understandable, but in fact, provided the bank account you choose is covered by the Financial Services Compensation Scheme – also known as the FSCS – you will receive up to £85,000 of your money back, even in the unlikely event

## High street bank savings rates versus best-buy


Bank	Account	Interest on £10,000 lump sum
 Barclays	Everyday Saver	0.15%
Lloyds	Club Lloyds Saver	0.20%
NatWest	Everday Saver	0.20%
Nationwide	Instant Access Saver	0.25%
HSBC	Flexible Saver	0.40%
<b>Moneyfacts best rate</b>	<b>Al Rayan Bank Everyday Saver</b>	<b>2.10%</b>

Table: Shares magazine • Source: Relevant bank websites, Moneyfacts, as of 8 September 2022

that your bank goes bust and your money is lost. However, holding more than this with one bank clearly comes with some risk attached.

It's important to note the FSCS treats all banks sharing the same banking license as one entity, and therefore only eligible for one £85,000 compensation payment per customer as a maximum. For instance, HSBC and First Direct are treated as one entity, because they are part of the same banking group, even though they operate under separate brands.

### HIGHER RATES IF YOU LOCK UP FOR LONGER

Another puzzler for savers to chew over is whether they may want to lock up some of their money for a set period in fixed-term bond accounts, to get a better interest rate.

In theory, while interest rates are rising this shouldn't be such a good idea, but one-year bond rates are now looking relatively attractive and seem to have already priced in some of the interest rate hikes to come.

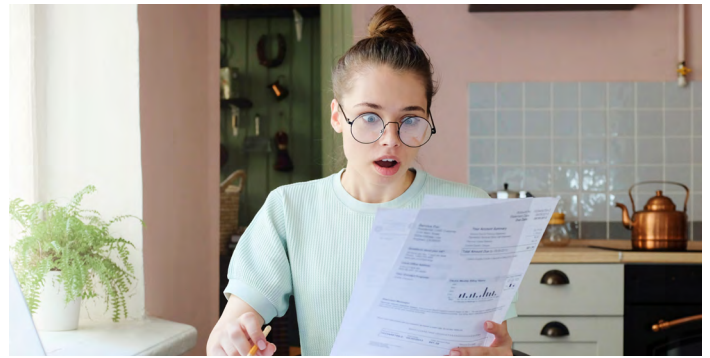
According to Moneyfacts, the best one-year fixed bond account is currently offering a rate of 3.35%, compared to a top rate of 2.1% for instant access savings. That looks like a reasonable trade for locking up at least some of your money for 12 months.

You currently don't get a huge amount more interest for locking away for longer. The best rate on both a three-year fix and a five-year fix is 3.6%, and there is a greater risk that interest rates rise further over these longer time periods, which you would miss out on if your money is tied up.

### CASH SUPERMARKETS

Given the huge shift we're seeing in interest rate policy, all this is liable to frequent change, so savers would do well to keep an occasional eye on the savings market.

They might find a useful way to do this is to use one of the new cash supermarkets, such as Raisin or the AJ Bell Cash Savings Hub. These cash marketplaces have competitive accounts available from lots of different banks, making it easier to compare providers, and switch between them, which can be done within the cash supermarket account.



### WATCH OUT FOR TAX

One nasty little shock which savers might once again find themselves experiencing is paying tax on their cash interest.

In some ways, this is a nice problem to have, because for many years interest rates have been so low that for most people, the annual tax-free savings allowance has more than covered the income they've received from cash in the bank.

That tax-free allowance is £1,000 of interest for basic rate taxpayers, £500 for higher rate taxpayers, and zero for additional rate taxpayers.

As interest rates rise, savers might well find themselves breaching these limits, especially those with larger cash piles. A cash ISA can help here, because all interest from these accounts is tax-free. However, the rates on offer are often a bit lower than non-ISA accounts, so savers might need to indulge in a bit of maths to calculate if they're better off saving in a cash ISA or not.

While interest rates are heading in the right direction for savers, it's entirely fair to point out that against a backdrop of double-digit inflation, your money is still going backwards in real terms.

One way to deal with this is to invest money you might not need in the next five to 10 years, or longer, in the market. In the short term the stock market can be extremely capricious, but it's surprisingly reliable over longer time periods, and one of the best ways to guard your money against the ravages of inflation.

**DISCLAIMER: AJ Bell owns Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell**



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

# China: time to look again?

By Nicholas Yeo, Investment Manager, abrdn China Investment Company Limited

- Chinese markets have been weighed down by geopolitics, the government's Covid strategy and weakening economic growth.
- The recent falls in the Chinese market look extreme.
- The gap between operational and share price performance is becoming too big to ignore.

*For many investors, China represents a conundrum: on the one hand, it seems unwise to ignore the potential opportunities created by the world's second largest economy, as 1.4 billion people grow wealthier. On the other, it has been a particularly difficult place to invest since the start of this year, weighed low by geopolitics, the government's Covid strategy and weakening economic growth.*

Views on China often polarise, but the reality is nuanced. On the zero Covid policy, the narrative has been that China's dogmatic enforcement of lockdowns threatens economic growth. In reality, China doesn't yet have the vaccine coverage or healthcare infrastructure to support a 'living with Covid' policy. However, it is putting this in place, with new treatments and an mRNA vaccine emerging. As such, the situation is difficult, but we believe it does not threaten growth over the long term.

Similarly, investors have been deterred by the Chinese government's crackdown on certain industries – including the internet giants and education providers.



It has been taken as the heavy hand of an all-powerful government, stifling innovation and business growth. However, we think in many cases, the Chinese government is only doing what other countries are trying to do – curb the social harms associated with internet usage and address privacy concerns. The risk appears to have passed with the government refocusing on growth.

The final area of concern for investors has been over shifting geopolitical relationships. The US/China relationship has fractured in recent years and that conflict has been exacerbated by the Russia/Ukraine crisis, which has put the two countries on opposite sides. This will undoubtedly have consequences for China's access to technology in future. The delisting of American Depository Receipts (ADRs) of Chinese firms from US stock exchanges has also been difficult, exerting downward pressure on share prices. However, this is unlikely to affect the long-term growth trajectory of China in a meaningful way.

This backdrop goes some way to explaining the volatility in the Chinese market this year. However, we believe ultimately the gap between operational and share price performance will become too big to ignore. This should start to rectify as companies report their results. This has already started to be seen in the very short-term.

## Adapting the portfolio

However, that is not to say that we can ignore these problems completely on the abrdn China trust. We have focused our portfolio on a number of long-term themes. These themes remain largely unaffected by shifts in government policy, geopolitical tensions or the short-term impact of Zero Covid, but we have made tweaks to the portfolio to reflect the current situation.

The first of these themes is the development of the domestic consumer economy. This has been an explicit goal of the Chinese government as it strives to move away from manufacturing-led

growth. Wages have risen significantly in recent years, with households becoming wealthier as a result. We have made shorter-term adaptations to the stocks we hold within this theme. While China is not facing the same inflationary pressures as Western economies, prices are still rising. Discretionary spending is likely to be weaker as households spend more on necessities. As such, within our consumer segment, we've shifted the portfolio to some more 'staples' rather than discretionary names. We believe these companies can continue to deliver against the current backdrop. The next generation of Chinese consumer tends to favour domestic rather than international brands, such as the spirit Moutai baijiu made by Kweichow Moutai. We also recognise that Covid will continue to create some disruption, with individual cities locked

down. As such, we've sought to prioritise those companies with warehouses across the nation, rather than those confined to a single region.

#### **Growth areas**

Other areas of focus in the portfolio include digitisation. There is widespread adoption of technology among China's vast population, which has helped create opportunities across multiple sectors, including e-commerce and gaming, plus digital transformation and data centres. We have used share price weakness to add to certain areas. For example, we've been adding to semiconductors as valuations have dipped.

The portfolio also holds a number of financials, with growing demand for wealth management products a feature of rising wealth. This also brings some defensiveness to the trust at a time when

there has been a notable rotation in Chinese markets from growth to value. Healthcare is another area of focus, as an emerging middle class demands improved care, particularly in the wake of the pandemic. The energy transition is another fertile source of opportunities.

The Chinese markets have been buffeted by a series of problems. However, none of these challenges are likely to stall the long-term growth trajectory for the country. There are still real opportunities in the Chinese market, and signs that investors are starting to re-examine them after a difficult period.

*Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.*

### **Important Information**

#### **Risk factors you should consider prior to investing:**

- The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment trusts are specialised investments and may not be appropriate for all investors.
- There is no guarantee that the market price of a Trust's shares will fully reflect its underlying Net Asset Value.
- As with all stock exchange investments the value of the Trust shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Investment trusts can borrow money in order to enhance investment returns. This is known as 'gearing' or 'leverage'. However, the use of gearing can result in share prices being more volatile and subject to sudden or large falls in value. Where permitted an investment trust may invest in other investment trusts that utilise gearing which will exaggerate market movements, both up and down.
- The value of tax benefits depends on individual circumstances and the favourable tax treatment for ISAs may not be maintained. If you are a basic rate tax payer and you do not anticipate any liability to Capital Gains Tax, you should consider if the advantages of an

ISA investment justify the additional management cost/charges incurred.

- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. This may mean your money is at greater risk.
- Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
- Specialist funds which invest in small markets or sectors of industry are likely to be more volatile than more diversified trusts.

#### **Other important information:**

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# Truss plan for energy independence fires up the oil and gas sector

There is also some good news for investment trusts in the renewable energy space

**T**here were two positive developments for the UK oil and gas sector as new prime minister Liz Truss announced her plan to address the UK energy crisis.

First, she confirmed she wouldn't be using a windfall tax on energy producers to help pay for the planned freeze on bills. Second, she announced plans to cut up sector red tape, including an immediate lifting of the moratorium on fracking, as part of a bid to make Britain energy independent by 2040.

This means the UK should be a net energy exporter rather than a net importer as has been since 2004. The 2040 target is instructive; these changes aren't going to make a big difference in the short term as they will require long-term investment to bring to fruition.

The effective ban on fracking has been in place on safety grounds since 2019 when activity by private operator Cuadrilla caused stronger than expected tremors in Lancashire.

## EMULATING THE US

The UK is looking to emulate the US whose own energy independence has been achieved in large part due to its successful exploitation of shale gas.

Estimates from the British Geological Survey, published in 2013, indicate there could be more than 1,300 trillion cubic feet (tcf) of natural gas trapped within shale rock in the Bowland-Hodder basin which straddles north and central England.

To put this in perspective UK natural gas consumption in 2021 totalled just 2.7 tcf. However, as the Cuadrilla episode illustrates, there are concerns about safety and fracking might not be popular in the communities which surround this prospective resource. This might make politicians' newfound support for shale gas a bit shaky.

The main UK-listed shale player **IGas Energy (IGAS:AIM)** has switched its focus to conventional onshore oil and gas production. Its shares have performed very strongly in 2022 but last week fell as it responded to the removal of the fracking ban – with investors perhaps disappointed by a lack of detail on how the assets would be developed.

Up until now, very limited progress has been made on UK shale gas despite the big claims for its potential.

Conventional offshore oil and gas may also get a boost from a new North Sea licensing round – with more than 100 licenses on offer. The UK's offshore energy industry body OEUK noted in a 2022 report that exploration and appraisal activity has been at 'record low levels in recent years' with just five exploration wells drilled in 2021 – the lowest number since the beginnings of the North Sea as



## What is fracking?

The process involves injecting high-pressure chemically treated water and sand to crack tight shale rock formations and release trapped oil and gas.

Fracking operations have a significant footprint – sometimes encompassing as many as 15 large pumps covering an area as large as a football pitch and there is a requirement for a significant amount of water.



an oil and gas province 60 years ago.

Out to the end of this decade, OEUK has identified £26 billion worth of investment opportunities in the North Sea at various stages of progress. If they were all greenlit this would deliver four billion barrels of oil equivalent (boe) of oil and gas (37% gas and 63% oil) by 2030.

Parliament's Climate Change Committee estimates consumption of eight billion boe during this time frame. Therefore, net imports would still represent 50% of consumption.

However, only £8.5 billion of these potential developments has been sanctioned and if no further work were to be signed off then production would, according to OEUK, decline at an average rate of around 15% per year until 2030. It notes this would mean the UK would be left dependent on international imports for around 80% of its gas needs and around 70% of its oil requirements.

### RENEWABLES RELIEF

Where is the renewables space in all this? There was relief that its own profits would not be subject to a levy. Investment bank Stifel commented: 'We recently said that the threat of a windfall tax was diminishing as Liz Truss had indicated she was not keen on the idea. However, the risk of the additional levy has been a cloud over the renewable funds and, while lower levels of inflation potentially means lower future uplifts to net asset values, this is good news overall for the sector, with the risk now ruled out.'

One lingering cloud hanging over renewables funds is a reported plan to make them agree new long-term contracts at fixed prices below current rates. Currently wind and solar farms built more than eight years ago can sell electricity at the

## How UK oil and gas shares have fared in 2022

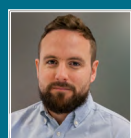
Company	Performance 2022 to date (%)
IGas Energy	602
Egdon Resources	555
Union Jack Oil	268
Angus Energy	254
Hurricane Energy	108
Europa Oil & Gas	107
i3 Energy	93
Jersey Oil and Gas	78
Energiean	70
EnQuest	67
Serica Energy	66
Parkmead	48
Harbour Energy	43
Kistos	42
Orcadian Energy	6
UK Oil & Gas Investments	-15
IOG	-26

Table: Shares magazine • Source: SharePad, data to 12 September 2022

market rate and still claim subsidies.

A further risk which may put energy companies off from making big long-term capital investment decisions is a change of government which could result in much less favourable fiscal and regulatory arrangements for the industry.

An election is expected in 2024 and some current polls have the Labour Party, which made a strong case for a windfall tax on the sector's so-called 'excess profits', enjoying a double-digit lead over the Conservatives.



By **Tom Sieber** Deputy Editor

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# Is weakness in Somero Enterprises shares a great opportunity or a value trap?

Historically, during downturns, the shares fallen more than the drop in profit

**C**oncrete levelling specialist **Somero Enterprises (SOM:AIM)** has seen its PE (price to earnings) ratio sink almost 40% to 7.9 times since the start of the year, despite 2022 earnings estimates rising by 10%.

Even a record first half performance wasn't enough to reverse continued weakness in the shares which are around 30% lower than the peaks in January.

This looks odd, given clear momentum in the business, rising cash balances and higher dividends. Finncap estimates the shares offer almost a 10% dividend yield based on the expected 2023 pay out.

Earnings per share have grown at a CAGR (compound annual growth rate) of 20% a year over the last five years which arguably qualifies Somero as a growth share.

Somero designs and manufactures top of the line laser-guided concrete floor flattening equipment that is becoming vital for the acres of automation-laden warehouse space needed as more businesses embrace digital commerce.

But investors have seemingly been reluctant to attach a growth PE multiple to the stock. This is perhaps understandable given the cyclical nature of Somero's business which serves the construction industry.

That said, the company's long-term growth profile suggests structural growth despite the ups and downs of the general economy. Somero has grown net profit by a CAGR of 15% a year since floating in 2006.

Had the market viewed the company as a growth stock the brutal share derating (falling PE) might be understandable. After all, growth stocks have been heavily punished in the last year as interest rates have risen.

The conundrum for investors is that Somero's

shares exhibit clear value and quality characteristics which have been in vogue over the last year.



## VALUE TRAP OR LONG-TERM OPPORTUNITY?

Could there be factors not yet visible which explain the low rating of the shares or is more patience required?

Around 80% of Somero's sales come from the US and fears of a recession have been building in recent months. A downturn would lower corporate cash flows, and potentially slow demand for the company's products, particularly given the links to online shopping.

During the last big economic downturn in 2008 Somero's revenue dropped sharply, from \$66.4 million to \$22 million while profits turned into losses. Construction firms were particularly hard hit during the banking crisis.

Succession planning is a potential worry given the ages of CEO Jack Cooney (74) and chair Larry Horsch (87). Notably, Cooney has been selling shares over the last few years but still owns around 2% of the company.

A management vacuum could attract predatory activity. *Shares* recently highlighted the company could be vulnerable to a takeover by private equity.

While it appears a lot of potential bad news has been priced into the shares, it is worth remembering how volatile the share price has been historically.



By **Martin Gamble** Education Editor

# Why high returns can sometimes justify high ongoing fee charges



How Pershing Square, Riverstone Energy, Honeycomb and others have fared

**G**iven the poor recent performance of many investment trusts compared with the FTSE 100 index – which has held up relatively well this year and which investors can access via a tracker fund for a few basis points – the age-old issue of fees has reared its head again.

The big question for investors in investment trusts which carry a high OCF (ongoing charge fee) is should they stick with them when they have a down year or two or should they be ruthless and look for a better option?

This article looks at a range of investment trusts with ongoing charges of more than 2% of assets under management and ask if they are worth their money.

## NOBODY'S PERFECT

Before we start it's worth reminding that markets are volatile, and investing involves a degree of risk.

Richard Bernstein, formerly chief investment strategist at Merrill Lynch and now chief executive of his own investment company, has examined the probability of losing money when investing.

Taking the US stock market between 1985 and 2006, Bernstein calculated the likelihood of losing money was 46% if the investment was held for one day, 42% for a week, 35% for a month, 27% for a quarter, 18% for a year, 14% for three years and

zero over 10 years.

In other words, over short time periods there is a higher chance of losing money whereas the longer the holding period the lower the risk of capital loss.

At the same time, as every fund and trust says in their marketing material, past returns are no guarantee of future performance, so even if a manager has beaten the market in each of the last five years, for example, it doesn't mean he won't underperform going forward.

The fact is there isn't a fund manager on the planet who has never had a bad year, and it's normal for professional managers to lose money from time to time, just as long as they make more than they lose and they win more often than they lose.

The question is, in the long run have they justified their management fees (which are sometimes topped up with performance fees), and if not should you 'fire' them, or in practical terms sell your investment?

## WHY FEES VARY

The issue of fees is a particularly thorny one since as we said at the outset investors can access not just the UK stock market but the entire global market and a plethora of thematic funds for a pittance through passively-managed tracker funds such as an exchange-traded funds, also known as an ETF.

No manager is going to be able to charge much for a 'plain vanilla' fund which more or less replicates an index, but where they can demonstrate they are adding value with a specialist strategy investors are likely to be prepared to pay more.

Another thing to take into consideration is fund size: if a fund is small, it may need to charge higher management fees to cover its costs while in theory



the bigger the fund the less it needs to charge.

As the costs of running a fund or trust are typically fixed, once it starts to grow each additional pound of assets means more fees which drop straight to the bottom line.

Some firms have shared the benefit with their investors by cutting fees when they reach a certain level of assets, but others have managed to retain relatively high fees.

Our view is that unless a manager shows they can consistently beat their benchmark and the competition over a long period of time, they probably shouldn't be charging high fees.

If they have some 'special sauce', however, which allows them to beat the market on a regular basis and by a handsome margin, then they are probably worth their salt.

### OUR RESEARCH

We have looked at eight popular investment trusts with ongoing charges of between 2% and 3% to see which ones we believe can justify their fees and



which should probably have a rethink.

In our analysis we have excluded VCTs (venture capital trusts) and REITs (real estate investment trusts) as their fee structure can be somewhat convoluted.

It has to be said most can hold their head up when it comes to performance meaning the high fees actually represent value for money.

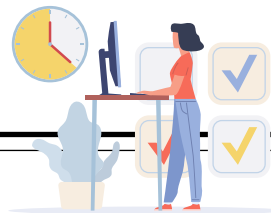
### A MIXED BUNCH

Top of the pile is Bill Ackman's hedge fund **Pershing Square Holdings (PSH)**, which charges a basic

## Eight investment trusts with high ongoing charge fees

Trust	Size	Ongoing charge	1 year gain/loss	5 year gain/loss
Pershing Square Holdings	\$9.3bn	2.70%	14%	182%
Riverstone Energy	£588m	2.70%	45%	-45%
Geiger Counter	£86m	2.67%	3%	168%
Vietnam Holding	£111m	2.52%	18%	83%
Symphony International	£488m	2.43%	12%	-14%
BH Macro	£1.3bn	2.39%	38%	147%
Honeycomb	£625m	2.30%	-14%	-30%
Oakley Capital	£1.1bn	2.22%	14%	165%
FTSE 100 Index			5%	2%
MSCI World Index in Sterling			-11%	33%

Table: Shares magazine • Source: AIC, Financial Times, Google Finance, Sharepad, Shares. Data correct as of 8 Sept 2022, performance data rounded to nearest %



1.5% fee on assets under management and a performance fee of 20% of the increase in net asset value after the management fee and other losses have been deducted.

## RUN PERSHING CHART

Ackman, a devotee of the Warren Buffett school of investing, typically owns a concentrated portfolio of less than a dozen names where detailed knowledge of each of the holdings 'provides a better opportunity to deliver superior risk-adjusted returns' compared with a large portfolio of lesser-known stocks.

Given his long-term track record, we would argue he is worth the money, but a regular investment rather might be a better strategy than buying into the fund all in one go.

Energy and power-focused trust **Riverstone Energy (RSE)** is clearly a binary bet on rising commodity prices and the dollar, both of which have worked to its advantage this year, but its longer-term performance is far from impressive.

Rather like playing the triangle in the orchestra, this trust is all about timing – miss the moment and you can forget it.

Interestingly, **Geiger Counter (GCL)**, which is a single bet on the exploration, development and production of uranium for the nuclear power industry, has been a cracking performer over five years.

Given the renewed interest in locally produced nuclear power as a way of weaning the global economy off imported energy, we suspect the trust will continue to reward investors for some time to come.

Specialist fund **Vietnam Holdings (VNH)** is also a unitary bet and one that paid off nicely over the last five years as the country has grown faster than the Asia-Pacific region due to strong economic drivers.

If we go into a global recession, Vietnam is likely to be less affected than many other emerging markets, but the trust could still undershoot at which point it would be worth buying for a rebound.

**BH Macro (BHMG)**, which we recently [profiled](#), has an impressive track record, as does private equity trust **Oakley Capital Investments (OCI)**, and both would seem to deserve their place in a well-diversified portfolio.

“**Rather like playing the triangle in the orchestra, Riverstone Energy is all about timing – miss the moment and you can forget it**”

On the other hand, Asia-focused strategic investment firm **Symphony International (SIHL)** hasn't done investors any favours over five years and while its one-year performance is reasonable it is still some way below its pre-pandemic price. The way the trust was sold off in early 2020 suggests it is seen as high on the risk spectrum.

## RUN HONEYCOMB CHART

The trust which would seem to justify its fees the least in our table is **Honeycomb (HONY)**, which invests in credit assets originated by non-bank lenders and 'other originators of specialist lending assets', mainly in the UK.



Unlike **VCP Specialty Lending (VSL)**, which provides asset-backed financing directly, Honeycomb invests indirectly by buying loans and has large exposure to the property sector and small businesses, a strategy which has seen its shares underperform both short and longterm.



By Ian Conway Companies Editor



# AMC's new preferred stock explained

Who gets them and what do they mean for ordinary shareholders

**W**hen **AMC Entertainment (AMC:NYSE)** reported second quarter earnings a few weeks back (4 August) it's better-than-expected revenues and lower losses were not the only surprise for investors. Chief executive Adam Aron also unveiled plans to issue new preferred stock. This may have left many ordinary shareholders baffled.

What is preferred stock, who gets them, and what the wider implications for the AMC and its share price? Let's try to explain.

## WHAT IS PREFERRED STOCK, AND WHO GETS THEM?

To answer the second part first; all shareholders. Cinemas operator AMC has issued the preferred stock on a one-for-one basis with matching voting rights to all holders of its 516.8 million

common stock, including to UK shareholders. This means that for each common stock owned, you'll now own one common share, one preferred share.

Most preferred stock, or preference shares as they are usually called in the UK, are a sort of equity/bond hybrid. Like an ordinary share (common stock in the US), they trade on the open market and can be bought and sold just like ordinary shares.

They are also like a bond in that they give owners first dibs on dividends, which tend to be fixed, rather than declared alongside results at a level that the board thinks reflects the company's financial health, as is the case with ordinary share dividends.

Preferred stock also gives holders priority over the company's assets. This means that if disaster strikes, preferred stock owners sit ahead of ordinary shareholders when it comes to getting your investment back, in part or in full (although behind bond holders in the queue).

## Note to AJ Bell users

**AMC's preferred stock (APE)** doesn't show when you search for them on AJ Bell's platform, but don't worry, they should still be in your account ready to trade if you wish. This is due to a technical issue with its data provider Morningstar, which doesn't provide preference stock information.

## AMC's net debt versus cash flow

	Net debt (\$ billion)	Free cash flow (\$ million)
2021	3.91	-707.0
2022F	4.62	-475.0
2023F	4.68	-64.5
2024F	4.61	-50.0

Table: Shares magazine • Source: Marketscreener, F = forecast

Importantly, though, most preference shares don't carry voting rights, and AMC's do. So when AMC's preferred stock began trading on 22 August under the US ticker APE, it had the same effect of a two-for-one share split, hence the sharp fall in the AMC ordinary share price on 22 Aug, from \$18.02 to \$10.42 at the close (AMC has since fallen to \$8.64).

### FUNDING CHICANERY

That's the mechanics. What is more complex, and controversial, is why AMC has chosen to issue preferred stock in the first place.

AMC said wants to use the stock as 'currency' that will allow it to raise money to pay down debt and carry out acquisitions and investments. While it didn't raise any new money with the initial 516.8 million APE stock listed, it has board approval to issue up to one billion APE shares. If the 483.2 million balance were issued at the current \$5.11 price, AMC would raise \$2.64 billion but dilute existing AMC shareholders by nearly 47%, depending on the issue price.

This can be done without any shareholder approval, and that's the contentious bit. This is because it was able to rely on authorisation granted to its board by its former owner, China's Dalian Wanda Group when it listed in 2013. Wanda is no longer an AMC shareholder.

An extra 483.2 million preferred stock being issued without shareholder permission isn't the worst of it. AMC's board has the right to issue up to five billion preferred shares, all with voting rights and without any say so from existing shareholders.

AMC has given no indication of when it might issue the balance of the one billion preferred stock already authorised, and it said it has no plans to authorise the other four billion as it stands, but the dilutive threat will lurk in the background.

### SHORT-TERM TRADING

On the basis that most AMC (and now APE) shareholders were probably lured in as part of the 'meme' stock craze that thrust it, **GameStop (GME:NYSE)**, **Bed Bath & Beyond (BBBY:NASDAQ)** and other previously little-known US stocks into the limelight might imply many AMC shareholders are relatively short-termist. They may be looking to trade their AMC stock over the coming weeks and months – they simply now have two assets to trade for every one previously.

But as **Cineworld's (CINE)** financial collapse shows, running cinemas is a treacherous business in a post-pandemic world. Marketscreener data estimates that AMC will have around \$4.6 billion of net debt at the end of 2022, so don't be shocked if more preferred stock is issued sooner rather than later.

**Disclaimer: Financial services company AJ Bell referenced in this article owns Shares magazine. The author of this article (Steven Frazer) and the editor (Tom Sieber) own shares in AJ Bell.**



By Steven Frazer News Editor



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# Why the food delivery story has stalled and what the big names can do to recover

Just Eat Takeaway and Deliveroo shares have slumped as orders dry up

**C**ovid cast a pall on many businesses but there were winners and food delivery drivers were among the lockdown heroes. I remember the unholy glee felt by the entire family when that insulated bag stuffed with cardboard cartons walked through the garden gate after what seemed like months of home cooked meals.

Everyone seemed to get in on the action and the number of options available to order through the platforms offered by **Uber (UBER:NYSE)**, **Just Eat Takeaway (JET)** and **Deliveroo (ROO)** exploded. As restrictions lifted some investors began to ask whether the momentum could continue or if the reopening of bricks and mortar hospitality would put a spoke in the wheel.

## DARK KITCHENS

Even in Huddersfield, which has some great independents but has never really been a focus for big restaurant franchises, Wagamama came to call with a so-called dark kitchen – a location set up purely to prepare takeaway meals. Its arrival was met with excitement from my noodle-loving kids but after just three months the noodles disappeared and with rather less fanfare than when they arrived.

The **Restaurant Group's (RTN)** latest interim results told the tale; the company would continue with plans to open bricks and mortar restaurants but it's rollout of dark kitchens would cease because of 'delivery market softening'.

That softening's been measured by the CGA's Hospitality at Home tracker which found delivery and takeaway sales for restaurants and pub groups were down by 19% in July compared to the same



month in 2021, the ninth month in a row that the tracker recorded a year-on-year decline.

But it noted that takeaway and delivery sales were still considerably up on pre-pandemic levels despite the current cost of living crisis which has dented consumer confidence and eroded discretionary budgets.

Food delivery companies have been beguiling investors for years with their growth story and promises of profitability. Here in the UK the sector last year was valued at a whopping £10.5 billion, and the market is predicted to grow by more than £4 billion in the next couple of years.

## GROWTH NOT ALL IT'S CRACKED UP TO BE

But is growth all it's cracked up to be? Deliveroo's latest update highlighted an issue that's long troubled many investors. While revenue shot



## Growth in the UK food delivery market

£ billion

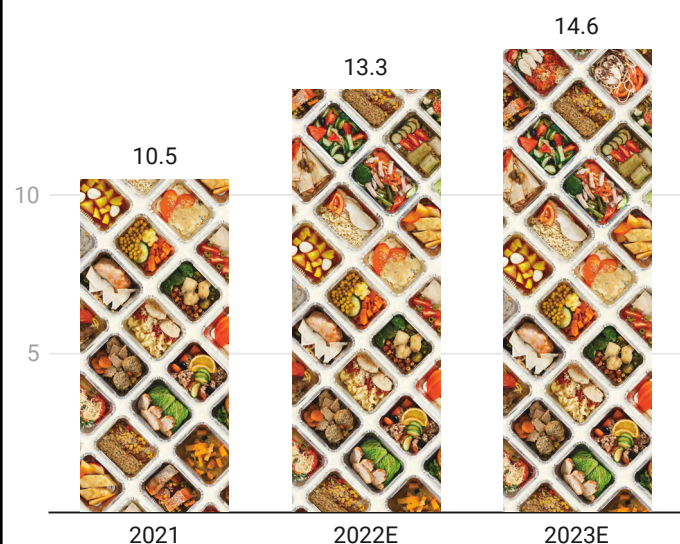


Chart: Shares magazine • Source: Lumina Intelligence

up profitability went the other way begging the question: does the model really work?

It's a question that's dogged supermarkets as they've shifted more of their business online. If basket sizes are substantial the metrics work out but if people order small amounts the costs become prohibitive.

No one doubts that food delivery is here to stay but there are a great number of variables companies need to consider, not least increased courier costs, something that ate into Just Eat's Northern European revenues over the first six months of the year.

The trick, unsurprisingly, is to find a solution that mitigates any rise in costs or fall in order size. Scale is important, it's why Just Eat, Uber and Deliveroo have spent billions on mergers, acquisitions, and tie-ups. But not all the pieces fit seamlessly into the jigsaw and mistakes have proved costly with Just Eat recently taking a £2.5 billion hit after it wrote down the value of US subsidiary Grubhub and sold off its stake in Brazilian based iFood in a bid to improve profitability.

Marketing costs are another big consideration as brands look to make sure they remain front of mind for consumers.

### UBER CATCHES A RIDE HIGHER

Uber, which obviously has a huge ride-hailing operation to go with its food delivery service, is going its own way with shares in the company picking up after it announced a 10-year deal with Nuro in the US to use its autonomous vehicles to make deliveries, eventually cutting out courier costs altogether.

It also delighted its patient investors with the news that it should finally become profitable this year, one of the reasons its share price hasn't experienced the same brutal falls as Deliveroo and Just Eat with both down over 70% in the last 12 months.

Inflation has clearly been forefront in investors minds over the past year and despite government intervention the next year looks likely to remain difficult for consumer-facing stocks. Investors wonder how the consumer will respond: will they be prepared to loosen the purse strings now there's less demand on it or will they remain cautious? And if they do splurge, are they more likely to plump for one real night out rather than a couple of takeaway meals?

Subscriptions might ultimately be the smart way of persuading people to pay more for the service they receive once inflation returns to 'normal' levels because something has to give especially if workers get more rights and unions become further entrenched in the gig economy.

Deliveroo is heading for a showdown with IWGB (Independent Workers' Union of Great Britain) in the Supreme Court as the union tries to get drivers classed as workers. Such a move would prove very costly and it was this black cloud that put many institutional investors off the company at its IPO.

Ultimately consumers are unlikely to be prepared to pay much more than they currently do for the service they currently receive and realistically competition watchdogs are unlikely to look fondly on any major merger moves even if consolidation seems a decent solution.

# How big a pot of money do I need to retire on?

Our expert explains the different considerations when you are building up a pension

*How much money will I need to retire? I'm currently in my early 50s and planning to keep on working full time at least until state pension age. However, I have the option of working part time beyond this date to supplement my income.*

**Bryce**



**Tom Selby**, AJ Bell Head of Retirement Policy says:

How much someone will need to enjoy the retirement they want will depend on a wide range of factors.

As a starting point, write down your expected weekly outgoings, covering fixed costs and factoring in a buffer for any unexpected expenses.

You should also consider how much extra discretionary cash you will need to enjoy the retirement you want as this will have a significant impact on the size of pension pot needed.

Someone who has no mortgage and plans to holiday in the UK, for example, might need less income – and therefore a smaller pension pot – than someone who still has a mortgage to pay off and plans to travel the world in retirement. Equally, someone in good health planning to retire at age 60 will need a far bigger pension pot than a similar person planning to retire at age 70.

The Pensions and Lifetime Savings Association (PLSA) has developed 'Retirement Living Standards' which provide a useful benchmark for the amount different standards of living might cost.

For a single person, the PLSA reckons a 'minimum' standard of living will cost around £10,900 a year, while a 'moderate' living standard would cost £20,800 a year and a 'comfortable' living standard £33,600.

It's worth noting that since these living standards were updated, inflation has increased and so each will need to be revised upwards.



Nevertheless, they are a useful guide to how much you might need to spend in retirement.

## WHAT TYPE OF PENSION DO YOU WANT?

To figure out what size private pension pot you might need to fund your retirement, you should first consider your other income sources. The state pension is the most obvious starting point for those who are aged 66 or over, with the full flat-rate state pension paying just over £9,600 per year.

This just about covers a basic standard of living in retirement but falls a long way short of a 'moderate' or 'comfortable' lifestyle.

Next, think about any other income sources you have, such as income from a buy-to-let property, a part-time job or any defined benefit (DB) pensions you might have. This will help supplement your state pension and put you in a better position to know what you need from your private pension.

Once you've got a firm handle on how much

you need to spend, you can consider how to generate an income from your pension pot.

For those who want a guaranteed income for life and no investment or longevity risk, an annuity might be the preferred option. If you're going down this road, you need to remember there is no going back and your income will be inflexible.

Disclosing your health and lifestyle factors to the insurance company should help to improve the income they offer you.

Alternatively, if you are comfortable keeping your pension invested while taking an income and managing that risk, drawdown might be a preferable option. Anyone going down this route needs to be clear about their investment strategy, keep costs down and review their plans regularly – at least once a year.

If you are unsure about how to navigate these options, it might be worth speaking to a regulated financial adviser who can consider your financial situation and recommend options.

### HOW MUCH MONEY MIGHT YOU NEED?

The amount you need to retire will depend on a range of factors including your age, health, other sources of income and the investment returns your fund enjoys (if you opt for drawdown).

Take, for example, a 66-year-old who receives £9,000 a year in state pension income and needs to generate another £11,000 pre-tax from their private pension after taking their tax-free cash.

If we assume their income rises in line with 2% inflation and investment returns are 4% per year after charges, they might need a fund worth around £255,000 to generate the income they need for 30 years in drawdown.

On the other side of the coin, if investment returns were 4% a year and inflation higher at 4% a year, they might need a fund worth £330,000 to generate an income of £11,000 a year, rising with inflation, for 30 years.

This illustrates the challenge in figuring out how big a pension pot you will need to deliver a set level of income in retirement.

Alternatively, if a healthy 66-year-old wanted to buy a single life annuity worth around £11,000, rising in line with 2% inflation each year, they might need a fund worth £210,000, according to the [MoneyHelper annuity calculator](#).



### DEATH BENEFITS AND FLEXIBILITY

When considering drawdown versus annuity, you should consider how much you value flexibility versus certainty, and whether your income needs might change throughout retirement.

For many people, locking into a fixed income in the early years of retirement will not be desirable – especially as the rate you receive will improve as you get older. It is also increasingly common to mix and match annuities with drawdown.

In addition, death benefits are also extremely important for lots of people, and any unused drawdown funds can potentially be passed on tax-free to your nominated beneficiaries. If you buy a standard annuity, on the other hand, once you die your income will generally stop.

### DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [asktom@sharesmagazine.co.uk](mailto: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*.

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**Ben Turney**  
CEO  
Kavango Resources (KAV)

**SHARES**  
INVESTOR EVENINGS

## **Kavango Resources (KAV)**

Ben Turney, CEO

Kavango Resources is an exploration group targeting the discovery of mineral deposits in Botswana. The company's operating segment include Exploration and Corporate. Its projects include Kalahari Suture Zone; Ditau and Kalahari Copper Belt.

**Ben Crawford**  
CEO  
CentralNic Group

**SHARES**  
INVESTOR EVENINGS

## **CentralNic Group (CNIC)**

Ben Crawford, CEO

CentralNic Group is a UK-headquartered tech company achieving over 60% annual organic growth selling recurring revenue services. CentralNic is now over 200 times the size it was when it IPO-ed less than a decade ago. It has grown its profits every year and has been called "a cash generation machine."

**Harvey Sinclair**  
CEO  
eEnergy Group (EAAS)

**SHARES**  
INVESTOR EVENINGS

## **eEnergy Group (EAAS)**

Harvey Sinclair, CEO

eEnergy Group is a digital energy services company. Empowering organisations to achieve net zero by tackling energy waste and transitioning to clean energy without the need for upfront investment.

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## KEY ANNOUNCEMENTS OVER THE NEXT WEEK

### Full-year results:

**19 September:** Craneware. **20 September:** Brown Advisory US Smaller Companies, Feedback, Litigation Capital Management. **21 September:** Galliford Try, Supermarket Income REIT. **22 September:** Hansard Global, Wilmington. **23 September:** European Opportunities Trust.

### Half-year results:

**20 September:** Alliance Pharma, Cambridge Cognition, EKF Diagnostics, Elixirr International, Fintel, First Tin, Gaming Realms, HydrogenOne Capital Growth, Jadestone Energy, Kingfisher, Xaar. **21 September:** Alphawave IP, Dianomi, Hostmore, Ingenta, Keywords Studios, LBG Media, MyHealthchecked, Pendragon, Pennant International, Ten Entertainment, The City Pub Group, Warpaint London. **22 September:** Aquis Exchange, Biome Technologies, Ceres Power, Cineworld, Distribution Finance Capital, Judges Scientific, Life Science REIT, Osirium Technologies, PensionBee, Playtech, Safestyle UK.

### Trading updates

**20 September:** SThree. **22 September:** Investec.

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.

Company Registration No: 3733852.

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