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VOL 24 / ISSUE 50 / 22 DECEMBER 2022 / £4.49

SHARES

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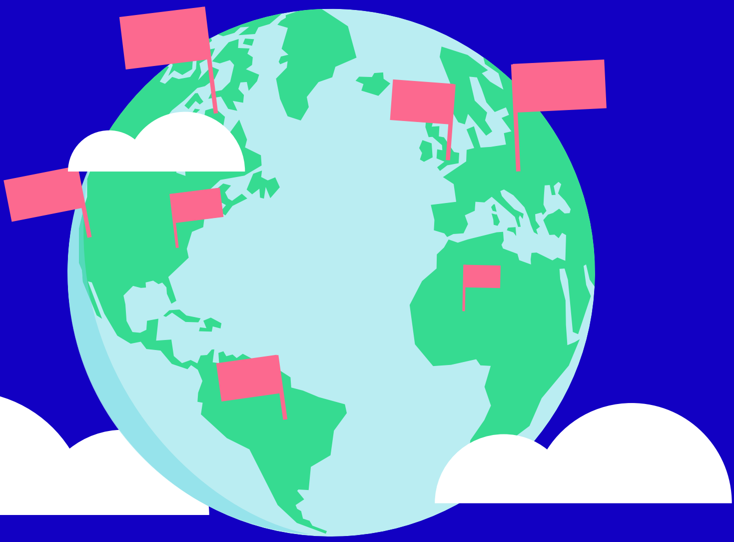
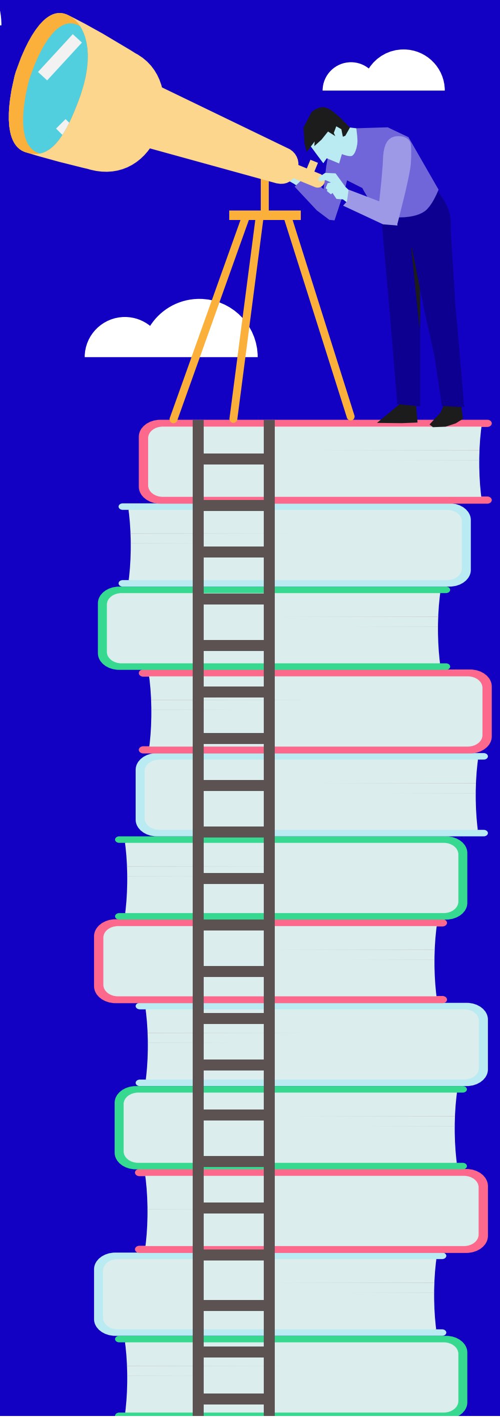
TOP STOCKS FOR 2023

HOW INVESTING IN GREGGS COULD HAVE MADE YOU A MILLIONAIRE





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Daniel **Coatsworth**

Welcome to the third 'sea change' for investment markets in 50 years, says expert

Investors should listen to Howard Marks and understand that markets could behave a lot differently than the previous decade

It's fair to say that 2022 will go down in history as the year where investors' portfolios were turned on their head. Many things that worked in the previous decade have become a drag on performance, most notably the large declines seen across mega cap US stocks including a 60% decline in **Tesla (TSLA:NASDAQ)** and a 48% drop in **Amazon (AMZN:NASDAQ)**.

Rather than being a long-overdue market correction, some experts believe the investment landscape has just experienced a large structural change. This could require an overhaul of your investment portfolio.

Howard Marks from Oaktree suggests we're experiencing the third major sea change for investment markets of the last 50 years. He says: 'We've gone from the low-return world of 2009-21 to a full-return world, and it may become more so in the near term. Investors can now potentially get solid returns from credit instruments, meaning they no longer have to rely as heavily on riskier investments to achieve their overall return targets.'

Marks adds: 'If you grant that the environment is and may continue to be very different from what it was over the last 13 years – and most of the last 40 years – it should follow that the investment strategies that worked best over those periods may not be the ones that outperform in the years ahead. That's the sea change I'm talking about.'

Between 2009 and 2021, interest rates were very low which made it easy for companies to borrow money to grow. Now it's more expensive to borrow and lenders – be it through loans or bonds – or investors through share placings are less willing to back loss-making businesses or ones with minimal prospects for decent profits near-term.

Just look at **Trackwise Designs (TWD:AIM)** which was on the verge of running out of cash and only secured an equity fundraise by issuing new shares at an incredible 92% discount to the market value. Existing investors have been battered.

Aside from companies in financial trouble, the other area of the market to reconsider if held in your portfolio is expensive growth stocks. While most will have already seen a derating over the past year, I fear these types of stocks will remain out of fashion for some time.

In an era where interest rates could stay higher for longer, why would an investor want to pay 40-plus times earnings for a business offering the promise of disruption, innovation and transformation when they can find plenty of companies on less than half that rating that are already profitable and growing? There will be the odd exception where it is worth paying up, but for most it will be hard going to win back the market's favour.

Managers of growth funds can be excused one year's bad performance, but next year they'll have to prove to investors that more attention is being paid to valuation and that they are actively seeking better value opportunities now they've lost the tailwind which previously fuelled the growth bandwagon.

We'll explore these issues in *Shares* over the coming months. Until then, I would like to wish every reader a Merry Christmas and a Happy New Year. We'll be back on 12 January 2023.

Could the tobacco industry become extinct after radical new legislation?

New Zealand aims to eradicate smoking by stopping tobacco sales

Big tobacco firms will have been busy consulting their lawyers in recent days after a landmark decision last week by the New Zealand government to stop the sale of their products in a push to make the country 'smoke-free' by the middle of this decade.

Remarkably, the legislation – the Smokefree Environments and Regulated Products (Smoked Tobacco) Amendment Bill – bans the sale of tobacco to anyone born on or after 1 January 2009.

The new law has received surprisingly little coverage in the financial or mainstream press, and the price of tobacco companies on the stock market barely flinched, yet *Shares* suspects it could signal the beginning of the end for traditional tobacco products, leaving manufacturers in this space to eventually have a sole focus on next generation products such as vaping.

Smoking rates are already in decline in New Zealand, having fallen from 9.4% of the population to 8% in the past 12 months, the lowest since records began, according to associate health minister Ayesha Verrall.

As well as limiting the sale of tobacco products, the new bill will slash the number of licensed retailers by 90% from 6,000 to just 600 by the end of next year making it more difficult for existing smokers to keep up the habit.

In addition, any retailers caught breaking the new law will face a fine of up to NZ$150,000 (around £79,000) which is likely to make many shops think twice about stocking tobacco products full stop.

The government aims to make New Zealand smoke-free by 2025 to increase life expectancy and reduce the cost to the healthcare system of treating smoking-related diseases.

'Thousands of people will live longer, healthier lives, and the health system will be $5 billion better off from not needing to treat the illnesses caused by smoking, such as numerous types of cancer, heart attacks, strokes and amputations,' said Verrall.

The tobacco industry has been increasingly curtailed in recent years with a blanket ban on advertising on health grounds and the introduction of packaging showing the dangers of smoking.

UK firm **British American Tobacco (BATS)** has invested heavily in new products such as vapes – which aren't covered by the New Zealand regulations – but its 'combustibles' business, which still makes up nearly 90% of revenues, is suffering from 'accelerated downtrading' in the US where it sells well-known brands such as Camel, Kent and Lucky Strike.

Rival **Imperial Brands (IMB)** is a more recent convert to next-generation products, and while sales are growing at double digits, they represent less than 5% of total revenues.

Both companies clearly have a great deal at stake if 'smoke-free' legislation starts to spread as we think it might over the course of this decade. [IC]

Ukraine and rates: why the market's two big bugbears are not going anywhere

Warnings of a fresh Russian offensive and hawkish Fed keep sentiment gloomy for now

Worries around interest rates and the Ukrainian conflict, which have dominated much of the year, continue to trouble investors in the final days of 2022.

While the decision of both the US Federal Reserve and Bank of England to increase interest rates by 50 basis points at their latest meetings had been widely anticipated, the finer details had a negative impact on sentiment.

Despite a softer-than-expected reading of inflation for November, Fed officials made it clear the current level of interest rates is not sufficient and continued to forecast the rate moving above 5% in 2023 and staying at that level for some time.

There was also the news that US retail sales saw their biggest drop in 11 months in November. This demonstrates the economic pain already being felt thanks to the Fed's actions.

These problems pale into insignificance up against the more existential threat being faced by Ukraine with a key adviser to the country's president Volodymyr Zelensky warning Russia may escalate the war in a mass-infantry winter offensive.

Whether Mykhailo Podolyak's warning to the *New York Times* of a renewed assault on the capital Kyiv was simply intended to check any complacency among Ukraine's Western allies or based on solid intelligence remains to be seen. However, it is an unwelcome reminder that a big geopolitical risk weighing on markets has not gone away. [TS]

Luxury firm Lanvin looks unloved as shares fall 28.5% following market debut

Investors appear to be sceptical about the Chinese luxury company's near-term prospects

CHINESE LUXURY FASHION firm **Lanvin (LANV:NYSE)** had a bad start to life on the US stock market, listing at $10 a share with a $1.3 billion valuation. The shares swiftly fell 28.5% to $7.15 amid concerns over cut-throat competition and the Chinese economy's bumpy reopening as it emerges from a zero-Covid strategy.

Owned by China's Fosun International, Shanghai-headquartered Lanvin is the footwear, leather goods and accessories seller behind the namesake French couture house and brands such as hosiery specialist Wolford and Italian luxury shoemaker Sergio Rossi.

Lanvin raised $150 million through the listing, well below the $544 million original target. Some 97% of shares in the cash shell into which it reversed – Primavera Capital – were redeemed, with investors asking for their money back rather than staying on board for the merger.

Sales grew by 73% to €202 million in the first six months of 2022 and Lanvin forecasts a move into profitability by 2024. The company will use the flotation proceeds to accelerate organic growth and fund strategic acquisitions. It wants to chase opportunities in North America and Asia. [JC]

Games Workshop shares hit 11-month high on Amazon licensing deal

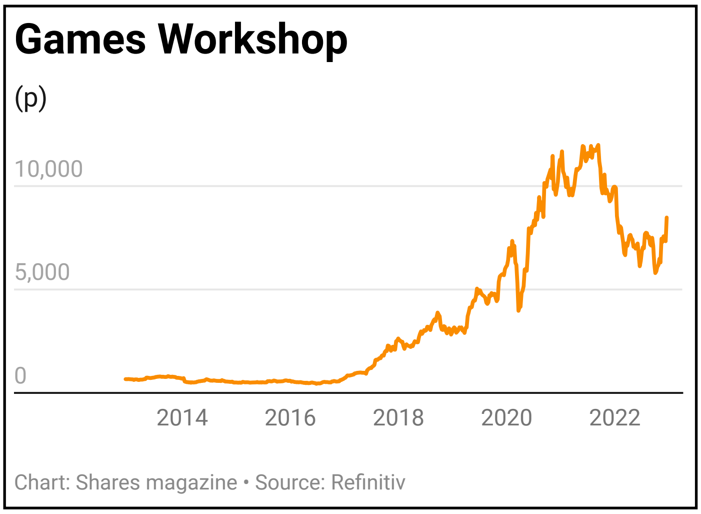
How the company's loyal fanbase respond to the tie-up is just as important as the deal itself

Fantasy miniatures maker **Games Workshop (GAW)** delighted investors on 16 December after announcing a tie-up with **Amazon (AMZN:NASDAQ)**, potentially one of its biggest licensing deals to date.

The two parties have agreed 'material commercial terms' which involve developing Games Workshop's Warhammer 40,000 universe into film and TV productions as well as granting Amazon merchandise rights. The productions will star actor Henry Cavill, best known for appearing in *Superman*, *The Witcher* and *The Tudors*.

No financial details are known but given the deep pockets and reach of Amazon, the deal could represent a step change in licensing income for Games Workshop.

Jefferies analyst Andrew Wade said: 'Licensing income has built strongly in recent years, from £2 million in the 2015 financial year to circa £17 million estimated for 2023, but we saw more limited progression ahead, believing that only a major film deal would support another step-change. With the latest news, that is now a very real possibility. Moreover, a mainstream TV/film product could be game-changing in terms of Warhammer's brand reach and awareness.'



Licensing revenues include minimum royalty guarantees for use of the group's intellectual property and royalty income earned as a share of the licensee's sale of games and products.

Games Workshop has steadily built up an income stream from licensing since 2015, monetising its vast intellectual property portfolio. Although small relative to overall revenues at around 5% it is almost all profit, which elevates its importance to around 16% of total operating profit.

Having built up a loyal fanbase of hobbyists over many decades it is paramount to keep them engaged and happy. Any licensing deal which threatens or tarnishes the Warhammer brand's value therefore needs to be carefully considered.

It has already signed over 90 licences for the Warhammer brand including a deal with Marvel Comics, home to *Spiderman*, *X-Men* and *The Fantastic Four*, to create Warhammer comics. Games Workshop has also sold licences to video gaming companies including **Frontier Developments (FDEV:AIM)** and Japanese virtual worlds specialist Nexon.

Arguably the Amazon deal is a step-up in scale and will have broader appeal beyond the company's historical roots of hobbyists. The move may pay off in the long run and increase brand awareness. But does it run counter to the firm's own stated business model?

On the company's website, it states: 'We don't spend money on things we don't need, like expensive offices or prime rent shopping locations or advertising that speaks to the mass market and not our small band of loyal followers.' [MG]

Why Victorian Plumbing shares have rallied 120% in three months

The online toilets, taps and basins seller has rebounded on better than expected results and a positive start to its new financial year

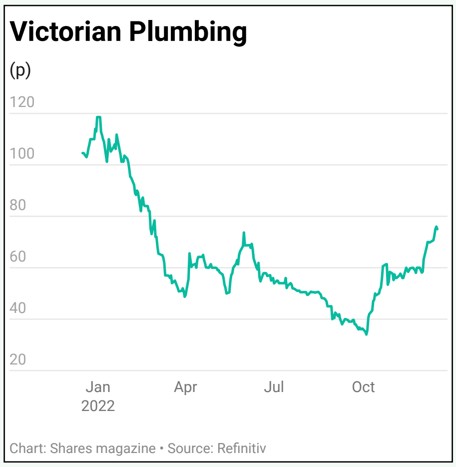
After floating on AIM in June 2021 at 262p with an £850 million valuation, the biggest debut market cap the junior exchange has ever seen, shares in online specialist bathroom retailer **Victorian Plumbing (VIC:AIM)** almost disappeared down the plughole.

They sank as low as 34p by early October 2022 amid inflation-induced margin pressures and more subdued demand post-Covid lockdowns, with sales and pre-tax profits declining in a difficult first half to March 2022.

Yet the stock has since rallied 120% to 75p after the online taps, toilets and basins seller's upgraded guidance in a positive trading statement (6 Oct) highlighted gross margin improvement, with results (6 Dec) for the year beating downgraded estimates following a second half return to growth.

CEO Mark Radcliffe delivered news of 'a strong start' to its new financial year, particularly in margins, and Victorian Plumbing dismissed fears that supply chain constraints might derail its turnaround.

Thanks to a bumper year-end cash position of £45.5 million, the retailer hit the dividend trail by proposing a maiden ordinary final payout of 1.1p and an additional special dividend of 1.7p. [JC]

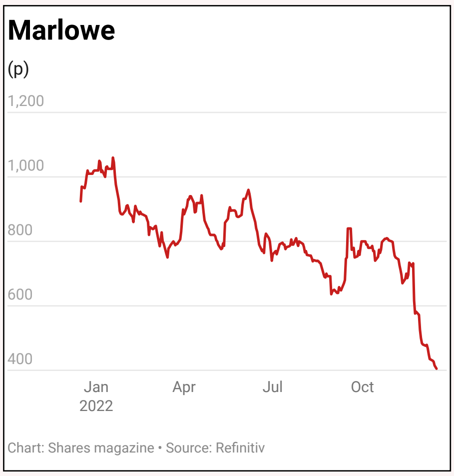


Why Marlowe shares have collapsed despite strong half-year results

Traders are focusing on the company's high gearing not business performance

Senior management at business software and services group **Marlowe (MRL:AIM)** must be wondering what they need to do or say to revive the company's ailing share price.

Despite delivering a 60% increase in first-half revenues and an 80% surge in EBITDA (earnings before interest, tax, depreciation and amortisation) last month, the shares fell nearly 16% to 616p on the day of the results and they are now trading at just 405p.



While growth was impressive, much of it came from acquisitions funded by debt meaning the firm's gearing is increasing at the same time as interest rates are rising.

As analyst Callum Battersby at investment bank Berenberg points out, thanks to £44 million of bolt-on deals and weaker cash conversion, net debt increased from £109 million in March to £156 million in September.

That represents nearly 40% of the company's current market value, which means despite the contribution from acquisitions earnings forecasts are being trimmed due to the debt burden and the impact of higher interest rates to come in 2023. [IC]

WHY PATIENCE PAYS
STAY THE COURSE AND AVOID COSTLY MISTAKES

In any given year, stockmarket investing can be a stomach-churning, hair-raising, nail-biting experience. Take the US market for example, which represents around 60% of global shares.[1] If we stretch our sights all the way back to 1872[2] and examine yearly returns up to 2018, around 1 in 3 of those years would have handed us back negative returns. Five in particular would have led to losses of between 30-40%.

And yet, the longer we remain invested in stock markets, the greater is our ability to ride out volatility. The chart below shows that over 5 year rolling periods, the magnitude of potential losses is much smaller compared to a shorter timeframe of 1 year. Further out, we see that, strikingly, no 20 year rolling period over 146 years of investing in US stocks has ever produced a loss, but rather some pretty decent annualised gains.

What is more, not only could a longer-term approach reduce the possibility of an investment loss, it also harnesses the extremely powerful forces of compounding – gains building upon gains – the benefits of which increase exponentially over time.

WHEN MARKETS BECOME WOBBLY

It's tempting to become panicky with our investments and impatient with our timeframes when all we see in the media are dreary reports of bear markets, as we are now. But during these spells of uncertainty, it's worth remembering that even small changes to your investments can have a dramatic impact on your returns over the long term.

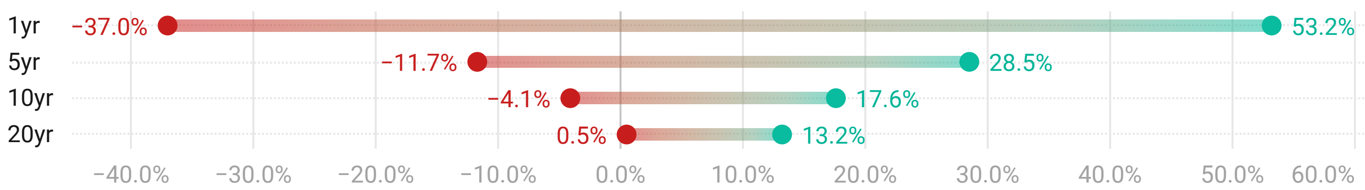
Alliance Trust have put this assumption to the test.[3] They modelled two theoretical investors who had put £10,000 into the Trust 30 years ago and added 10% of the average national salary every month and reinvested all of their dividends. The *Impatient Investor* sold 25% of their holdings every time market fell 5% and bought them back when it had recovered by 10% or more in a day. Meanwhile, the *Patient Investor* sat tight and did nothing.

The difference in value of the two portfolios after 30 years is almost unbelievable. The *Impatient Investor's* portfolio had grown to £217,884, whereas the *Patient Investor's* had ballooned to £410,757 - a difference of £192,872.

The problem for the *Impatient Investor* was not only had they deflated the power of compounding in their portfolio – siphoning off the fuel that drives their gains – they had also inadvertently missed out on some of the best days of returns in the market, which are often very soon after its lowest point.

It why Alliance Trust believes patience is more than a virtue, it's an investing strategy.

Range of Total Real Returns (annualized)



Source: Robert Shiller, Yale University; 1872-2018

Discover the value of staying power at **alliancetrust.co.uk/patience** →

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[1] https://www.statista.com/statistics/710680/global-stock-markets-by-country/
[2] http://www.econ.yale.edu/~shiller/data.htm
[3] Source: Alliance Trust. The Profit from Patience Report 2022

Greggs: we reveal the secrets of its success and plans for the future

Read our exclusive interview with finance director Richard Hutton

Since joining the stock market as a humble bakery in 1984, **Greggs (GRG)** has served up a stunning total return (capital growth plus dividends) of 53,549%, according to data from Refinitiv.

If you'd invested £5,000 at the time of the stock market listing, that outlay would have grown into £2.68 million if you'd reinvested all dividends. This tasty return demonstrates the power of compounding. Share price growth alone over that period amounted to a return of 17,559%.

But these gains are historic, so sceptical investors could be forgiven for thinking the company's best days as a growth stock are behind it, that we've already reached 'peak Greggs'.

The truth is the Tyneside-headquartered food-to-go operator remains in growth mode, deploying its strong cash flows to open new stores at pace while investing in supply chain capacity to support big growth ambitions.

MORE THAN SAUSAGE ROLLS

One of Britain's best-loved brands, modern-day Greggs is a food-on-the-go operator that stands for more than just sausage rolls.

With over 2,200 shops nationwide, Greggs sells everything from fresh sandwiches and savouries to affordable coffees, breakfasts, confectionery and pizza slices. Today's Greggs also retails healthier options including gluten-free, vegan-friendly and lower calorie products including the now-iconic vegan sausage roll.

Profit recovery coming out of the pandemic has been impressive. Management, led by relatively new chief executive Roisin Currie and long-serving finance director Richard Hutton, plans to double Greggs' sales by 2026. Yet there are big challenges ahead in the form of inflationary cost pressures and a consumer feeling the pinch from the cost-of-living squeeze.

RETAIL RESILIENCE

Resilient operator Greggs is well-equipped to cope with inflationary pressures and a consumer recession – during the global financial crisis of 2007 to 2009, like-for-like sales remained modestly positive, though Hutton concedes nobody will be immune now from the current pressures.

Greggs total return index

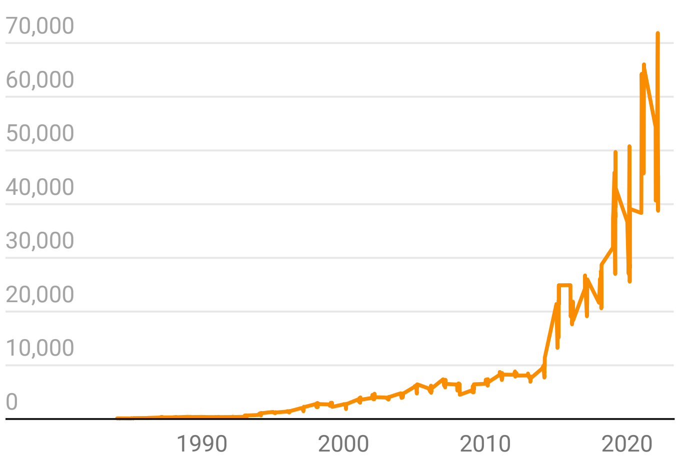


Chart: Shares magazine • Source: Refinitiv

He insists Greggs has always been resilient in more difficult phases of the economic cycle. 'We are very focused on value food and drink, something people continue to need, particularly if they are out of the home. At a time like this, looking for exceptional value for money is bound to be at the forefront of peoples' minds.'

Investment bank Berenberg believes Greggs is a more resilient business today than it was during the global financial crisis. It says the company's exposure to the high street has materially reduced, from circa 80% of stores around 2007 to under 50% now. Its sales mix has shifted away from more discretionary items like sweet treats such as doughnuts. Berenberg also believes Greggs now attracts a wider range of consumers, including those on middle and higher incomes whose spending is likely to be more resilient.

RAISING PRICES

Hutton stresses that over the last 10 years, Greggs has become much more focused on the food-on-the-go market, one 'heavily driven by people being out and about, often because they are in employment and need food and drink to keep them going.'

Cost inflation in ingredients, energy and wages means Greggs has had to hike prices, but Hutton closely monitors its relative value versus the competition and says that despite having to move prices a couple of times this year, the relative value of Greggs remains the same today as it did at the start of 2022.

The finance director says Greggs only raises prices when it 'absolutely has to' and works hard to avoid it. 'I would rather already be the best value in the market when you are having to move prices.'

A further facet of Greggs' resilience is a vertically integrated business model which has supported a long-run record of robust profit growth. 'We make the majority of the things that we sell ourselves,' explains Hutton. 'We don't have to negotiate with a supplier for the price of the products and we have the benefit of being a growing business.'

As Greggs opens more shops, this creates even greater demand for the products it manufactures and enables its bakeries and manufacturing facilities to stay busy. The busier a factory, the more efficient it is and that helps keep prices as low as possible.

In a reassuringly robust third quarter update

PRIMARK PARTNERSHIP CREATES A BUZZ

Finance director Richard Hutton is excited by the potential of Greggs' clothing collaboration with value fashion purveyor Primark which has been 'fabulous', he informs *Shares*. 'We're now on the third "drop" of clothing with Primark, so we've got the Christmas range (including the Greggs Christmas Jumper),' Hutton explains.

He says this commercial partnership, which brings together two value-oriented corporate names, has caused lots of buzz and news around the brand but there is a longer-term spin-off. Greggs has been working with Primark, initially in Birmingham, to open a café concept in its store.

'It's called "Tasty by Greggs" and is designed for the Instagram generation,' says Hutton. 'We've just opened the second of those in London's Oxford Street. Watch this space, you might see a little bit of that to come in some of the other cities around the UK as well.'

(4 October), Greggs made no change to cost inflation guidance of 9%, which enabled it to maintain its full year profit outlook.

TAKING MARKET SHARE

Despite its 2,200-plus store footprint, Greggs only represents about 6% of a competitive food-on-the-go market, and Hutton says there are still consumers who don't have convenient access to its offering.

'The market is quite fragmented and there are many independents as well as branded players,' he explains. 'We believe there is a clear opportunity to have more than 3,000 UK stores, but the number may be even higher.'

The FTSE 250 company will open around 150 stores this year, faster than the rate of new store openings before the pandemic because it perceives there to be a greater availability of good shops at more reasonable rents. Backed by a strong balance sheet, Greggs is in 'a good place to expand more quickly in this phase,' enthuses the finance director.

Greggs' exposure to the high street has materially reduced since the global financial crisis and this year, roughly two thirds of new openings will be company-managed shops, with the balance opened with franchise partners.

'The nature of the shops that we are opening in our pipeline is slightly different to the places you might traditionally have seen us,' says Hutton. 'More often than not we are opening on roadsides, in retail parks, supermarkets, and that often requires some working in partnership to access those catchments.'

SHARE VALUATION

Despite earnings estimates holding firm, no mean feat given the pressures roiling the retail sector, Greggs' shares are down almost 30% year-to-date and trade on their lowest multiple for years as investors are worried about the impact of a recession on its sales.

At £23.97, they trade on 19.7 times forecast earnings for the next 12 months. While that's still a premium rating for a predominantly bricks and mortar retailer, it is worth noting that the shares traded as high as 33.1-times in 2019 and 29-times earlier this year, according to Stockopedia.

Eight analysts have 'buy' ratings on the stock, three have 'hold' and there are no 'sell' ratings, according to Refinitiv.

OPENING LONGER HOURS

In the first half of 2022, like-for-like sales in company-managed shops increased 22.4% and were 12.3% higher than the comparable period in pre-pandemic 2019. Greggs continued to trade well in the third quarter too, with like-for-like sales in company-managed outlets 9.7% ahead of the same period in 2021.

Hutton assumes most of the post-pandemic

Greggs: financial overview

Year	Pre-tax profit (£m)	EPS (p)	DPS (p)	PE
2020 (A)	−13.7	−12.9	0.0	n/a
2021 (A)	145.6	114.4	95.3	21.0
2022 (F)	144.5	116.7	58.4	20.6
2023 (F)	156.5	121.8	64.1	19.7
2024 (F)	170.9	133.1	70.0	18.0

Table: Shares magazine • Source: Company accounts, Investec Securities estimates. *P/E based on £24 share price. A = Actual, F = Forecast, EPS = earnings per share, DPS = dividend per share, PE = price to earnings ratio

recovery has been seen, though he notes the number of walk-in customers visiting Greggs' shops remains lower than it was in post-Covid 2019, suggesting there's either more recovery to come or that consumer behaviour has shifted permanently.

A key discussion in the boardroom is to how to give the public more reasons to visit its stores. Plenty of people queue up for a bacon roll and a coffee before work and lunchtimes are always busy. Greggs needs to work out how to further increase sales per unit and that's why evening trading is now on the menu, which broker Jefferies sees 'presenting the most compelling like-for-like upside'.

By the end of this year's third quarter, Greggs had 500 shops with trading hours extended until eight o'clock in the evening. 'What we've seen is that period between four and eight is now the fastest growing time of day for sales, albeit from a very low base,' says the Greggs numbers man. 'That will be a driver of growth over a number of years.'

ONLINE ORDERS

A game-changing new growth channel is delivery, which enables Greggs to utilise shops in suburban or residential areas as kitchens for delivering food to the homes of ravenous consumers.

Greggs has an exclusive relationship with Just Eat and delivery, which was rolled out as a response to the pandemic, continues to be a meaningful part of its sales.

The company is seeing more of its sales being transacted through the Greggs App, relaunched in 2021 and which Hutton views as particularly of the moment because effectively it offers customers a 10% discount on everything they buy. 'For us, it's a worthwhile investment because of the additional

Greggs' underlying cost base

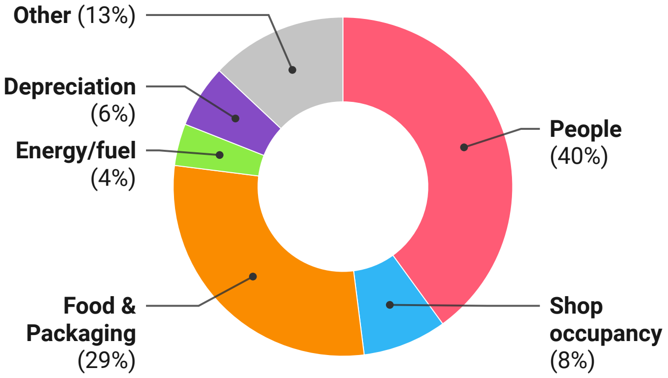


Chart: Shares magazine • Source: Greggs' interim results presentation, August 2022

visits from consumers. It's a win-win for Greggs and customers and as we get more people signed up, we'll understand more about their preferences and be able to offer them better deals.'

Drive-through sites are a small part of the sales mix, yet these are also proving popular because of their convenience and the space also allows delivery drivers and click and collect customers to come in and pick up orders.

Greggs boasts a strong pipeline of drive-throughs in the next two years, says Hutton. 'We've proved to landlords that we can be a successful operator of drive-throughs and the landlords have been generating a greater number of opportunities for us in the market. You'll see more and more Greggs drive-throughs popping up around the country.'

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

How it went wrong for Amazon and what comes next

Challenges seem stacked against the tech business in the near-term

For years, **Amazon (AMZN:NASDAQ)** seemed invincible, an e-commerce giant that made other companies quiver when it muscled into their markets. It helped Amazon shares soar, making loyal investors a packet along the way.

This year, that all changed. The stock has lost more than 48% in 2022, the worst fall since the global financial crisis. For comparison's sake, Amazon lost about 12% during the worst of the Covid pandemic panic selling during February and March 2020. Amazon stock is now back to 2019 levels.

WHY HAS AMAZON STOCK FALLEN?

Multiple factors have contributed to Amazon's share price decline this year, but in a nutshell, rampant inflation has trimmed the margins of Amazon's vast online retail empire, depleting operating cash flows.

Online retail growth prospects and cloud industry momentum are some of the reasons why most remain upbeat. 'While we expect a more challenging growth outlook near-term, we remain positive on long-term growth for both retail and AWS with improving margins over time as Amazon focuses on productivity improvements,' says Raymond James analyst Aaron Kessler.

AWS, or Amazon Web Services, is the company's cloud computing business, perceived as a key engine of growth for future profit.

Chart: Shares magazine • Source: Refinitiv

Others wonder if the pressure on profits may not be a one-off, but a sign of things to come. Cost-of-living pressures and a rising interest rate environment will be with us for much of next year, many experts believe.

'We believe that Amazon has the most downside in our mega-cap coverage given its exposure to inflationary cost headwinds and a potential impact from slowing consumption,' Jefferies tech analyst Brent Thill wrote in a note to clients at the end of November.

'We show that a bear case scenario of $60 billion in EBITDA (earnings before interest, tax, depreciation and amortisation) at a nine-times trough-multiple would yield a $51 dollar stock,' Thill said. That implies more than 40% downside from current share price levels.

HOW DID AMAZON PERFORM IN Q3?

Even though Amazon's revenue grew 15% in the third quarter, there are concerns that profits could be zero in Q4 due to weak consumer sentiment. Among the key highlights from Amazon's Q3 results were:

- Revenue of $127.1 billion, a 15% increase year-on-year
- Net income down 9.4% to $2.9 billion or $0.28 per share
- AWS generated sales of $20.5 billion, up 27% year-on-year
- Amazon's costs rose about 18% to $124.6 billion, making this the fifth consecutive quarter where expenses increased faster than revenue
- Amazon stock dropped as much as 14% in after-hours trading after it admitted to expecting lighter holiday sales
- Amazon said it expects Q4 revenue in the range of $140 billion to $148 billion. The midpoint of $144 billion was materially below consensus estimates of $155.1 billion

In mid-November, Amazon announced that staff layoffs were coming, but did not specify how many jobs would be cut. The *New York Times*, citing unnamed sources, reported that the retailing giant would cut 10,000 employees from its payroll, or about 3% of its workforce.

The axe may fall hardest on Amazon's devices arm, including the voice assistant Alexa, as well as its retail division and in human resources. In a blog post Amazon said, 'We continue to face an unusual and uncertain macroeconomic environment.'

INFLATION IS A DOUBLE-EDGED SWORD

The e-commerce segment is highly dependent on consumer purchasing power, and an increase in prices could lead to less spending and slower growth. While recent US and UK data shows the pace of price rises is slowing, inflation is still running at its hottest in decades.

With trillions of dollars pumped into the economy by government stimulus and previous Federal Reserve quantitative easing, inflation is becoming a permanent risk. Prime Day, which has traditionally been one of Amazon's biggest sales events with discounts on multiple products, saw mediocre sales this year compared to previous iterations.

But Amazon's exposure to inflation is not limited to consumers, it will still have an enormous workforce after planned job cuts. At the end of September Amazon announced US-based staff wage increases that will cost the company an extra $1 billion. The new deal came into effect in October.

Adding to the souring global economic backcloth, Amazon has also been subject to increased scrutiny from US and EU regulators this year. In particular, the company faces potential antitrust regulations that could force significant restructuring of its businesses.

Some believe this could have significant ramifications for Amazon's ability to deliver one or two-day shipping to its Prime members. As one of its main competitive advantages, it would be a substantial blow to its e-commerce operation.

WHAT HAPPENS NEXT?

Innovation and expansion are something that Amazon has always done well, and it continues to do so, investing heavily in cloud computing, artificial intelligence, and entertainment.

These ventures include acquiring MGM, setting viewing records for its Thursday night American football show, and the release of its blockbuster *Lord of the Rings* series. By investing in these new areas, it welcomes new customers into the Amazon ecosystem and expands its reach to different markets.

It also remains king of e-commerce, with worldwide online sales expected to increase by 56% from $5.2 trillion in 2021 to $8.1 trillion by 2026. Amazon's market share in this sector should continue to increase over time as customers turn to it for convenience and competitive pricing.

Online advertising is also fast becoming a meaningful growth lever despite the slowing advertising spend seen this year. Amazon's third quarter advertising revenues increased 25%, up from the previous quarter's approximate 15%.

The most important part of the business for investors to watch is not retail but AWS, long seen as Amazon's crown jewel. With Q3 revenues of $20.5 billion, it makes about 16% of Amazon's total income, yet it is by far its most profitable business, on near-30% operating margins thanks to its proprietary technology, and it has been key to cash flow.

Stiffening competition from **Microsoft's (MSFT:NASDAQ)** Azure and **Alphabet's (GOOG:NASDAQ)** Google Cloud needs watching but this is a structurally growing market. Gartner estimates that public cloud end-user spend of $410 billion in 2021 will rise to nearly $600 billion in 2023.

As AWS becomes an ever-larger part of the overall Amazon empire, its far superior margins should exert an increasing influence on Amazon's profits.

2022 results are likely to be ugly, with little or no profit at all, so anyone considering investing in the shares needs to weigh up the potential for the business longer term versus what might happen in the near-term.

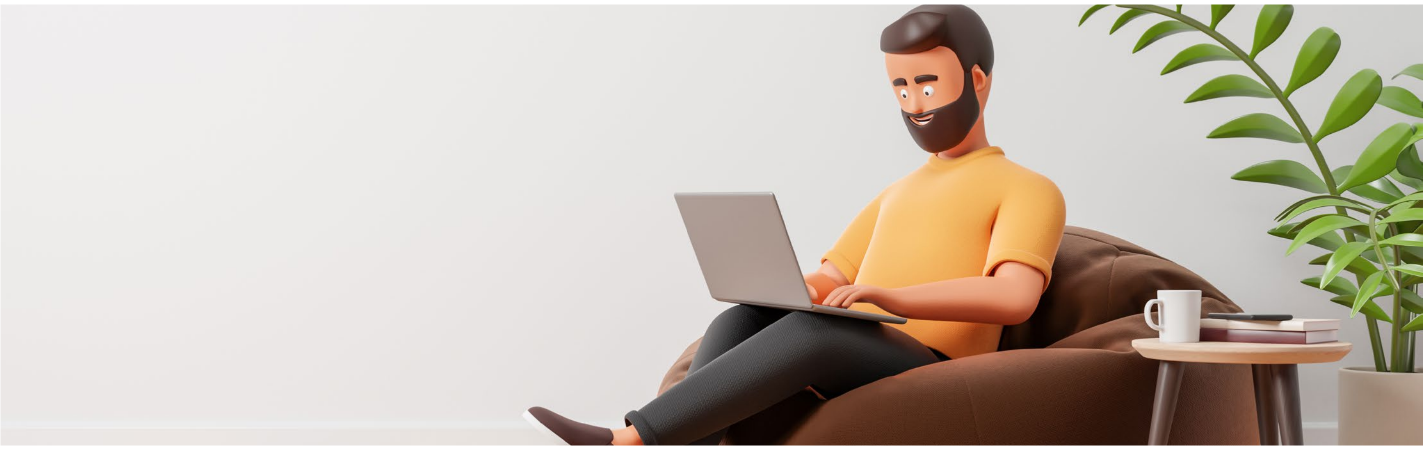
Market sentiment remains poor towards the stock as investors continue to be very short-term in their thinking. Therefore, Amazon would have to really surprise with its outlook commentary for 2023 (expected to be published in early February) for investors to start to reappraise the shares.

By **Steven Frazer** News Editor

HOW I INVEST:

Happy to buy when a stock experiences a sharp fall

David has been investing for 18 years and has a clear strategy



David is a 41-year-old IT consultant who first got interested in investing in 2004 after buying shares in his employer when it floated on the Indian stock market.

He then started investing in the UK and US markets for his ISA and SIPP (self-invested person pension). The ISA is used to house stocks while the SIPP is comprised of funds and investment trusts.

David still owns shares in the Indian company 18 years later which gives a good idea of his investment style and time horizon.

The tech worker says basing investment decisions on the fundamentals of a company appeals because he takes a long-term view. His ambition is to become financially independent by his mid to late 50s.

Although David primarily invests on a 'bottom-up' stock picking basis he also considers market and economic factors where he believes they are relevant.

For example, in November 2021 when **Pfizer (PFE:NYSE)** released positive news about the effectiveness of its Covid vaccine which sent markets soaring, he immediately acted by buying retail, transportation and oil stocks as potential beneficiaries if the world started to return to normal post-pandemic.

CONTRARIAN THINKER

In conjunction with the fundamental approach David is also willing to adopt a more speculative stance for up to 10% of his investment pot, which he calls his 'gambling stocks'.

This area of activity tends to be more contrarian and David often pounces after a company has disappointed the market and its shares have slumped.

The idea is to find opportunities where the market has potentially overreacted, and the problems are short lived and fixable. David believes shares often regain their losses when people have had a chance to digest and reflect on the information.

For example, when kettle safety controls company **Strix (KETL:AIM)** warned on profits (30 Nov) due to China Covid lockdowns hitting supply chains David purchased some shares on the day of the fall. This one worked out nicely and he exited with a quick 15% return soon after.

Other examples of contrarian trades in his portfolio include egg-free cake maker **Cake Box (CBOX:AIM)** and **Trainline (TRN)**.

Sometimes the purchases don't work out as intended. David lost all his investment in sofa

David's portfolio

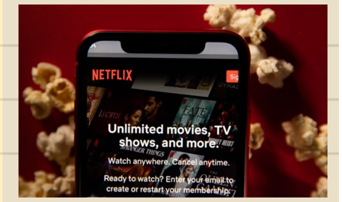
UK STOCKS	FUNDS & TRUSTS	US STOCKS
Associated British Foods	BG European	Alphabet
BP	BG Shin Nippon	Amazon
Barclays	City of London	Apple
Centamin	Edinburgh Worldwide	
Fevertree	Finsbury Growth & Income	
GSK	Fundsmith Equity	
Haleon	JPMorgan Japanese	
ITM Power		
L&G		
Made.com		Meta Platforms
Next	Monks	Netflix
Shell	Ninety One Global Gold	
Sylvania Platinum	Sanlam Global Artificial Intelligence Fud	
Unilever	Scottish Mortgage	
Watches of Switzerland	Smithson	

Table: Shares magazine • Source: Investor's own records

seller **Made.com (MADE:AIM)** and low-cost airline Flybe, both of which went into administration after experiencing financial problems.

CORE POSITIONS

The main part of the stock portfolio comprise core positions which David has chosen in the hope that they provide stability and quality growth.

To manage risk, he will look to take profit when a stock has doubled, selling the original value of the investment, and running the remaining position 'for free'. Oil majors **BP (BP)** and **Shell (SHEL)** are good examples.

The contrarian in David spills over into the core positions as well. For example, David invested in US streaming giant **Netflix (NFLX:NASDAQ)** because he views it a high-quality company with a 'good track record' which he believes has been unfairly sold off this year. He picked up shares around $180 and they currently trade around $323.

David generally looks for companies which are leaders in their space and seen as good candidates for adding to the core portfolio, which currently includes **Legal & General (LGEN)**, **HSBC (HSBC)**, Netflix, **Amazon (AMZN:NASDAQ)** and **Apple (APPL:NASDAQ)**.

FUNDS

Perhaps not surprisingly given his investment style David is a fan of quality growth fund managers such as Baillie Gifford, Fundsmith and Nick Train's **Finsbury Growth & Income Trust (FGT)**.

Key holdings in his SIPP include **Scottish Mortgage (SMT)**, **Monks Investment Trust (MNKS)** and **Fundsmith Equity Fund (FUND:B41YBW7)**.

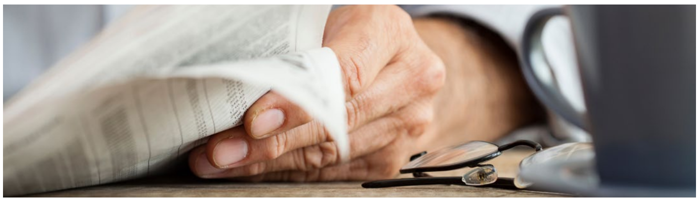
David scrutinises fund fees to ensure he is getting value for money.

HOW DOES HE FIND INVESTMENT IDEAS?

As well as conducting his own research and creating an investment narrative for each idea, David is a member of several investment clubs which gives him access to other ideas and styles.

He particularly values input on technical analysis – studying charts patterns – which he says complements his fundamental approach.

The Sunday Times is a favourite reading material because he likes the writing style of Ian Cowie, and he also likes *The Telegraph* and *Shares* magazine.



Looking back over the last decade David said one of the biggest lessons he has learned is that crystallising losses is a mistake, so it is better to be patient if an investment hasn't worked. In the long run, stocks and markets tend to recoup losses and move higher, insists David. [MG]

DISCLAIMER: Please note, we do not provide financial advice in case study articles, and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term. Tax treatment depends on your individual circumstances and rules may change. ISA and pension rules apply. Daniel Coatsworth who edited this article has a personal investment in Fundsmith Equity Fund.

By **Martin Gamble** Education Editor

TOP STOCKS FOR 2023

10 INVESTMENT IDEAS FOR THE YEAR AHEAD

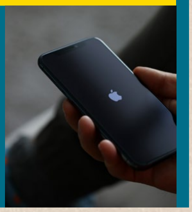
OUR PICKS IN A NUTSHELL

BUY

BUY

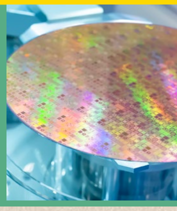
APPLE

Steven says: Apple's shares have become cheaper and it remains a cash-generating giant



ASML

Ian says: ASML is set for bumper revenue and earnings growth



COMPASS

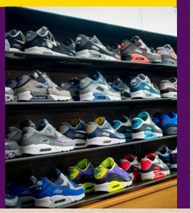
Martin says: Compass is an outsourcing winner with underappreciated growth potential

GSK

Martin says: GSK is cheap versus peers and is finally going places

JD SPORTS

James says: JD Sports Fashion - a great business at the wrong price



ME GROUP INTERNATIONAL

Martin says: ME Group International is a resilient, high quality business

PREMIER FOODS

James says: Premier Foods is looking tasty thanks to booming cake and sauce sales

PRUDENTIAL

Ian says: Prudential could be the low-risk way to play China's reopening

SHANTA GOLD

Tom says: It could be gold's year and miner Shanta is a great way to play it

WALT DISNEY

Tom says: Walt Disney is ready for a big comeback under Bob Iger

APPLE

The iPhone is one of the most successful electronics products of all time, selling more than two billion units worldwide and turning **Apple (AAPL:NASDAQ)** into the world's most valuable brand and company.

With its shares having dropped more than 25% during a horrid year for growth companies, Apple now looks inexpensive. It has all the right qualities for the current investment landscape – high levels of cash generation, lots of recurring revenue and loyal customers.

The electronics company has high customer retention rates thanks to its complex ecosystem, a growing addressable market, plus vast and stable free cash flows of more than $20 billion in the year to 30 September 2022.

Investors should note that recent iPhone supply disruptions could negatively impact its December and March quarterly numbers, expected to be published in January and April 2023. We expect that to be a short-term issue and one which the market will soon look past.

We believe Apple's shares will ultimately swing back into favour thanks to margin expansion, greater market penetration and its balance sheet strength.

The shares now trade on 21 times forecast earnings for the current financial year. That compares with a price to earnings ratio of 48-times in 2020, according to Stockopedia.

Apple is by far Warren Buffett's biggest bet, worth around 40% of **Berkshire Hathaway's (BRK.A:NYSE)** entire equity portfolio. That's some commitment from the one of history's greatest investors.

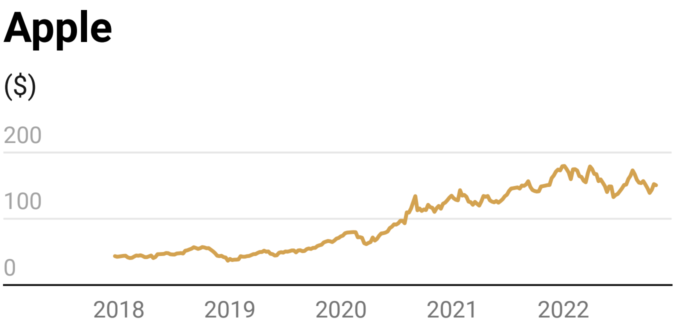


Chart: Shares magazine • Source: Refinitiv

The US and even Europe might be close to peak iPhone, yet there is still vast scope for growth in places like China, while it is barely scratching the surface in places like India. For example, Apple sold 333 million iPhones in China in 2021, whereas only 4.8 million were sold in India, a nation of about 1.2 billion people.

Profit margins should improve as average selling prices rise – notably it raised iPhone 14 selling prices by $100 in 2022, despite pressure on consumer spending.

There's also its services business, including areas like Apple TV, iTunes, the App Store and Apple Pay. Services revenue has been growing fast, increasing 54% from Q4 2019's $11.5 billion to $19.2 billion in Q4 2022. Apple now has more than 900 million subscribers and services gross margins of around 70% are double those of product sales.

The company is forecast to have $47.89 billion in net cash by the end of September 2023. This underpins dividends and share buybacks, which topped $29 billion in Q4 2022, following a $28 billion return in Q3. [SF]

Apple

Share price	$132.37
Market cap	$2.1 trillion
Forecast EPS 2023	$6.21
PE 2023	21.3
Forecast dividend 2023	$0.98
Dividend yield 2023	0.7%
Financial year end	24-Sep

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

ASML

According to trade data specialist OEC, semiconductors were the number one globally-traded product in 2020 with a 15% share of total goods by value at $1.7 trillion, computers were 12%, oil was 9% and cars accounted for 4%.

What drives this global trade in chips is the fact the world is becoming ever more connected, from the phones in our pockets to the cars we drive and the data centres storing all our files in the cloud.

Industry body SEMI estimates spending on chip-making equipment will hit a new record of $108 billion in 2022, while between 2021 and the end of 2023 overall spending on new chip-making facilities will top $500 billion.

ASML's world-leading EUV (extreme ultraviolet) machines use lasers to vaporise molten tin droplets into plasma, emitting extreme ultraviolet radiation which is focused into a beam and bounced through a series of mirrors so smooth that if they were the size of UK they wouldn't have a bump larger than one millimetre.

This beam hits a silicon wafer, drawing into it transistors with features measuring less than five nanometers or the length your fingernail grows in five seconds. This wafer, with billions or trillions of transistors, is then made into computer chips.

During the 21st century to date Amsterdam-headquartered **ASML (ASML:AMS)** has emerged as Europe's largest semiconductor equipment maker.

The company has grown its earnings per share at an average rate of more than 25% per year for the past 18 years thanks to strong sales growth and rising profits margins as it sells more high value-added EUV machines.

ASML

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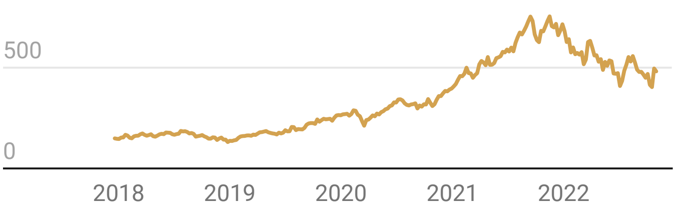

Chart: Shares magazine • Source: Refinitiv

While this is astonishing enough, the company says it sees a 'substantial growth opportunity' over the rest of this decade with annual sales reaching between €30 billion and €40 billion by 2025 and the gross margin rising to between 54% and 56%. By comparison, 2022 sales are estimated to be €21 billion with a 53% gross margin.

For 2030 the firm expects sales of between €44 billion and €60 billion with a gross margin between 56% and 60%.

In other words, sales could double from their 2021 level in the next three years and treble in the next eight years, with earnings growing even faster as margins continue to expand.

This means ASML will generate vast amounts of surplus cash which it can return to shareholders, and it announced a €12 billion buyback programme starting in November 2022.

And yet the shares, thanks to a market-wide shift in sentiment against growth stocks and short-term issues in the chip industry, have endured a tough 12 months. This has created what we believe is an outstanding opportunity to invest in a superb business. [IC]

ASML

Share price	€ 534.50
Market cap	€215.4 billion
Forecast EPS 2023	€ 18.80
PE 2023	28.4
Forecast dividend 2023	€ 6.62
Dividend yield 2023	1.2%
Financial year end	31-Dec

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

COMPASS

Investors should feast on food services company **Compass (CPG)** which has emerged from the pandemic in a stronger position with enhanced growth opportunities and more loyal clients.

Compass believes the global outsourcing market for catering is worth at least £220 billion with around half the market still operated in-house. Increasing complexities facing many businesses across supply chains, regulation and environmental, social and governance factors are accelerating outsourcing wins for the bigger players.

With inflationary pressures continuing to impact global profit margins, Compass sees further opportunities to grab market share as demand from the first-time outsourcing market accelerates. The same factors are also driving client retention with rates for the 2022 financial year up one percentage point to a record 96.4%. All the above factors represent a tasty cocktail of structural growth drivers with the potential to deliver revenue and profit growth above historical rates.

The fly in the ointment is that operating margins are still below pre-Covid levels of 7.5% but management is guiding for margins above 6.5% for 2023 (fourth quarter 2022 margins reached 6.8%) and a gradual recovery toward historic levels. With 2023 sales expected grow by 15% that implies operating profit growth of more than 20% to £1.91 billion argues Greg Johnson at Shore Capital.

Market estimates for earnings per share have increased by 14% over the last year, showing analysts remain behind the curve and this should provide a tailwind for the shares. There was some disappointment at the full year results (21 November) around the margin guidance and lower

Compass

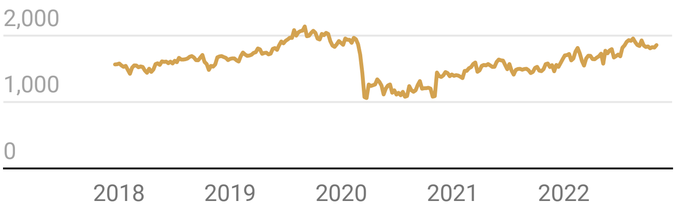

Chart: Shares magazine • Source: Refinitiv

pace of share buybacks, but CEO Dominic Blakemore told *Shares* the company was taking a conservative approach and would reassess the pace of buybacks at the first half results on 10 May 2023.

Johnson notes the company returned around £5 billion to shareholders between 2015 and 2019 through dividends and share buybacks. He continues: 'The business is now materially larger and based on current assumptions, total shareholder returns (including ordinary dividends) could total over £10 billion in the next five years.'

That implies 30% growth or around 5% a year over the next five years. Add in the prospect of higher revenue growth (Johnson is forecasting 7% a year), combined with margin recovery, and it is easy to arrive at earnings per share growth in the high teens percentage-wise.

Compass has become less cyclical over the last decade as more defensive industries such as healthcare and education generate a larger slice of group revenues.

The company has also weathered significant cost inflation through a combination of price, menu management and efficiencies. Its offering remains below high street prices providing a sustainable advantage. [MG]

Compass

Share price	£19.08
Market cap	£33.4 billion
Forecast EPS 2023	97.3p
PE 2023	19.6
Forecast dividend 2023	47.7p
Dividend yield 2023	2.5%
Financial year end	30-Sep

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

GSK

Many healthcare stocks did well on the stock market in 2022, yet one company stood out as a laggard due to a legal matter which has just seen an important breakthrough.

GSK (GSK) fell 10% in the year versus a 34% gain both from **AstraZeneca (AZN)** and **Eli Lilly (LLY:NYSE)**, and a 48% advance from **Indivior (INDV)**.

Holding the FTSE 100 company's shares back has been litigation pursued in US courts over claims that GSK's heartburn drug Zantac caused cancer.

In early December, one class action suit representing thousands of claimants was dismissed by a US federal judge on the basis it lacked scientific evidence. GSK's shares surged on the news as investors breathed a sigh of relief.

Analysts at Jefferies had estimated a worst-case scenario for GSK leading to compensation payments of up to $17 billion with some estimates from other analysts as high as $45 billion.

An appeal is still possible from the claimants regarding the dismissed Zantac case and there are associated cases still outstanding. Therefore, anyone buying the shares must understand the risks involved with this matter and on a broader basis given there is no guarantee that new drug developments will be successful.

So why should you buy the shares? GSK makes vaccines and specialty medicines to prevent and treat disease. In November the company raised its annual profit and sales guidance for the second time in six months, implying positive momentum in the business.

You're able to buy the shares far cheaper than most of its quoted peers, so there is the opportunity

GSK

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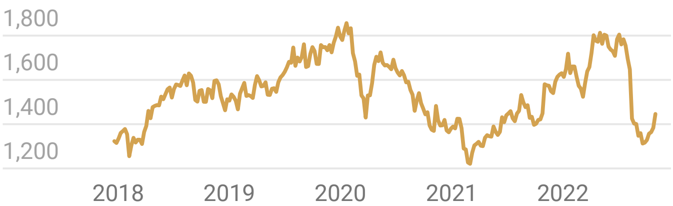


Chart: Shares magazine • Source: Refinitiv

to get a good entry point if you have faith in the long-term ability for GSK to generate good returns.

GSK currently trades on 9.9 times forecast earnings for 2023. That compares with typical mid-to-high teens ratings for pharmaceutical peers and 13.7 times earnings for the FTSE 100 index. GSK's shares also offer a 4% prospective dividend yield.

Berenberg believes GSK is on track to deliver double-digit medium-term profit growth with potential for margin expansion.

Activist fund manager Elliott Advisors holds a stake in GSK with the hope of driving change, saying the business is not performing to its potential. GSK has already acquiesced to some of Elliott's demands including beefing up its board and demerging its consumer healthcare unit, **Haleon (HLN)**.

GSK has since laid out plans to grow sales by more than 5% a year and adjusted operating profit by more than 10% a year between 2021 and 2026. [MG]

GSK

Share price	£14.18
Market cap	£58.2 billion
Forecast EPS 2023	145p
PE 2023	9.8
Forecast dividend 2023	56.4p
Dividend yield 2023	4%
Financial year end	31-Dec

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

JD SPORTS

For a company with such a strong long-term track record **JD Sports Fashion's (JD.)** valuation is hugely compelling. A difficult economic backdrop looks more than priced in and a cash-rich balance sheet provides the company with the wherewithal to emerge from the cost of living crisis with an enhanced market position as less robust rivals fall by the wayside.

The seller of trainers, tracksuits and other sports and leisure wear trades on a single-digit price to earnings ratio and we see scope to beat consensus estimates should the consumer recession prove more fleeting than feared. It also boasts attractive gross margins, excellent cash generation and pedigree in navigating sector headwinds.

Why then are the shares so cheap? Concerns over consumer spending are near to the top of the list when it comes to market fears but JD has also been affected by negative news flow related to governance issues under former boss Peter Cowgill, whose stunningly successful tenure turned JD Sports into a stock market darling. The news long-serving finance director Neil Greenhalgh is stepping down in 2023 also rattled investors.

Yet it is worth noting the company has been more resilient in previous downturns than investors remember, while the spending power of its core 'sneakerhead' consumer is underappreciated and JD Sports has proven its ability to pass through cost inflation via price increases.

Store sales densities are more than double those of peers and it remains ahead of the pack in premium trainers, boasting an outstanding store portfolio from which it sells the best new products from sought-after brands such as Nike, Adidas and Puma. The retailer has also diversified into the gym and cycling market, while the often overlooked outdoor division has returned to profitability.

Shares regards new CEO Régis Schultz as a great fit given his track record of transforming companies through digitisation and driving multi-channel growth strategies across international markets. He'll be looking to attack the huge global growth opportunities ahead for JD Sports, particularly in the world's largest athleisure market, the US, following the acquisitions of The Finish Line, Shoe Palace and DTLR in recent years.

Shore Capital forecasts JD Sports will be sitting on almost £1.8 billion in net cash at its January 2023 year-end, building to over £2.5 billion by the end of fiscal 2024 to give the retailer a bumper acquisitions war chest. The broker estimates broadly flat adjusted pre-tax profits of £947 million for the year to January 2023, rising to more than £1 billion in 2024 and 2025. [JC]

JD Sports Fashion

Chart: Shares magazine • Source: Refinitiv

JD Sports Fashion

Share price	114.6p
Market cap	£5.9 billion
Forecast EPS 2024	13.2p
PE 2024	8.7
Forecast dividend 2024	0.8p
Dividend yield 2024	0.7%
Financial year end	28-Jan

Table: Shares magazine • Source: Shares magazine, Shore Capital, Google Finance. Prices taken 20 Dec 2022. We have used 2024 forecasts because the market is forward looking. Its 2023 financial year end is 28 January so investors will soon be more focused on 2024 numbers.

ME GROUP INTERNATIONAL

Photo booth and laundry operator **ME Group International (MGEP)**, formerly known as Photo-Me International, had an exceptional 2022. The shares rose 71%, boosted by a stronger than expected recovery from the pandemic.

The shares look in good shape to sustain their momentum as ME continues to drive sales and profits, something which is not reflected in the current market valuation.

The stock trades on a lowly 2023 earnings multiple while the cash generative nature of the business underpins a generous yield. This means that even mid-single-digit profit growth offers the potential for double-digit shareholder returns as ME is rerated.

The resilience and quality of the business is underpinned by strong customer relationships and long-term contracts with infrastructure owners, local authorities and government agencies. This often goes underappreciated and is reflected in the high returns achieved on invested capital of around 30% and strong free cash flows which represent 10% of sales.

The growth strategy is centred around investing in the next generation of photo booths (65% of sales), continuing the expansion of the laundry operations (27% of sales) and growing the food vending equipment business (7% of sales).

The contributions from laundry and food are expected to contribute a larger proportion of the pie in future, creating a more balanced business.

At the half year stage Revolution laundry units in operation grew by 15.9% to 4,360 units while the roll-out of pizza vending machines (pizzas in under four minutes) increased to 20 per month. ME is also pushing an expansion of fresh fruit juice machines in Japan.

The company has strong pricing power as demonstrated by the 33% increase in prices at photo booths put through in the second quarter without any noticeable impact on volumes.

ME has successfully navigated the challenge from smart phones through various marketing initiatives, machine maintenance and removing unprofitable machines.

This can be seen in the average revenue per machine and number of visits which are 22% and 58% higher respectively than before the pandemic.

A partnership with the UK passport office which allows digitally secure uploads from the booths directly onto the government's servers avoids verification delays associated with selfies.

The company is also introducing entertainment functions and social media sharing to photo booths to attract younger people. Greater diversification of revenues should continue to drive sales while increased site density should drive yield per unit and feed through into higher profit. [MG]

ME Group International

Chart: Shares magazine • Source: Refinitiv

ME Group International

Share price	113p
Market cap	£429.1 million
Forecast EPS 2023	12.2p
PE 2023	9.3
Forecast dividend 2023	6.75p
Dividend yield 2023	6%
Financial year end	31-Oct

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

PREMIER FOODS

Leading branded food producer **Premier Foods (PFD)** looks a savvy way to play a decline in eating out as cash-strapped consumers focus more on affordable meals at home.

Potential earnings catalysts include a growing overseas business, and the array of new products Premier Foods is launching including Plantastic branded Millionaire Flapjacks, Mr Kipling Brownie Bites and pigs-in-blanket flavour Bisto granules in time for Christmas.

Net debt continues to fall year-on-year, despite restarting dividends and the £44 million acquisition of The Spice Tailor, an Asian ingredients label adding extra flavour to the growth mix.

FTSE 250 constituent Premier Foods makes everything from convenience foods and cakes to cooking sauces, desserts and gravies, and roughly 94% of UK households buy one or more of its products every year. Its higher margin branded portfolio spans Mr Kipling, Sharwood's, Ambrosia, Batchelors and Bisto as well as sauces under the Homepride and Loyd Grossman labels.

These brands are performing well in a tough consumer environment and Premier Foods is flexing its pricing power muscles to help protect margins from rising input prices.

UK shoppers are feeling the pinch from inflationary pressures, which could see them trade down to cheaper private label products in droves. Yet Premier Foods is still positioned to benefit through its non-branded business, which makes cakes and desserts on behalf of top UK food retailers. The non-branded arm is performing strongly helped by pricing and new business wins.

Premier Foods has positive momentum, with

group sales fattening up 6.2% in the six months to 1 October 2022, stripping out Spice Tailor's contribution, and with second quarter sales growth strengthening to 6.4%.

Adjusted pre-tax profit rose 11.9% to a slightly better than expected £47 million. International like-for-like sales were up 11% amid positive progress across Australia, Canada, Europe, Ireland and the US, with Sharwoods, Mr Kipling and The Spice Tailor now spearheading Premier Foods' overseas growth push.

Peel Hunt forecasts adjusted pre-tax profits growth from £123.5 million in the current year to 1 April 2023 to £128.5 million and £133 million in 2024 and 2025 respectively, with progressive dividend payouts continuing.

Shares in Premier Foods soared in 2020 after the company proved it had got debt under control and that it was generating enough cash to increase investment in product innovation and marketing. That saw investors prepared to pay a higher multiple of earnings to own the stock.

We believe the current rating of 10 times forecast earnings for the year to March 2024 is still too cheap for a business that is now in much better shape and has positive drivers to further grow earnings. [JC]

Premier Foods

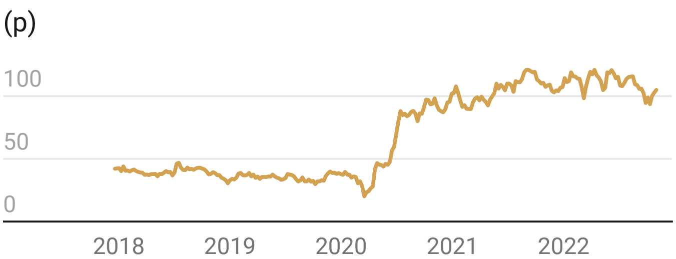


Chart: Shares magazine • Source: Refinitiv

Premier Foods

Share price	107.6p
Market cap	£929 million
Forecast EPS 2024	10.2p
PE 2024	10
Forecast dividend 2024	1.6p
Dividend yield 2024	1.4%
Financial year end	1-Apr

Table: Shares magazine • Source: Shares magazine. Peel Hunt, Google Finance. Prices taken 20 Dec 2022. We have used 2024 forecasts because the market is forward looking. Its 2023 financial year end is 1 April so investors will soon be more focused on 2024 numbers.

PRUDENTIAL

If you're looking to play the expected reopening for China and its economy in 2023, FTSE 100 insurer and asset manager **Prudential (PRU)** could a good way to get exposure while also benefiting from the transparency of investing in a UK-listed company.

Following the demerger of **M&G (MNG)** in the UK in 2019 and the sale of its Jackson Life annuity business in the US last year, Prudential is now exclusively focused on Asia and Africa.

The company provides life and health insurance as well as asset management services where it has just over 19 million life insurance customers and a potential market of five billion individuals.

According to Swiss Re, 80% of the Asian population has no insurance and 39% of health and protection spend is paid out of pocket. Prudential therefore has an opportunity to be a major player as growing middle class wealth drives improved take-up in insurance and protection.

Prudential forecasts an increase of $900 billion in gross written premiums for the life insurance industry over the next decade and sees its own premiums more than doubling from $29 billion last year to more than $60 billion by 2032.

It is already a top-three provider in 11 of 13 Asian markets, including market-leading positions in Malaysia and the Philippines. It has a 15% market share in India's life insurance market and is growing fast in Thailand, which it calls a 'high potential' market.

In China, Prudential has 23 branches and a presence in 99 cities, meaning it has access to nearly the whole of the country. The pandemic will have reinforced the need for the health and

protection provision.

Asia is forecast to contribute around 40% of global GDP growth over the next five years, with the middle class expected to top 1.5 billion people by 2030, yet according to research by Swiss Re there is a $1.8 trillion 'health protection gap'. Given Prudential's current market valuation, very little of this potential growth seems to be priced in.

Instead, the shares seem to be in limbo reflecting the extended transition period between the departure earlier this year of previous chief executive Nic Nicandrou and the arrival of new chief executive Anil Wadhwani in February next year. That provides an opportunity to buy the shares cheaply before the spotlight returns to the business.

Investors are waiting to hear what Wadhwani, who until recently ran Canadian insurer Manulife's Asian business, has to say about Prudential when he joins and the direction in which he thinks it should be going.

The current Covid restrictions in China have not helped sentiment towards the company either, but there are clear signs of a rethink by the government and by early next year the economy could be reopened which would lead to an upsurge in business. [IC]

Prudential

Chart: Shares magazine • Source: Refinitiv

Prudential

Share price	£10.49
Market cap	£29 billion
Forecast EPS 2023	$1.21
PE 2023	10.5
Forecast dividend 2023	$0.20
Dividend yield 2023	1.6%
Financial year end	31-Dec

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

SHANTA GOLD

Gold often does well during periods of slowing growth and persistent inflation (known as stagflation) and it should also benefit from a reversal in the strong dollar which held the precious metal back in 2022.

Bitcoin's claims to be an alternative to gold have taken a battering in recent months as the collapse of cryptocurrency platform FTX has seen the digital token more than halve from 2022 highs. That could see more people move out of bitcoin and into gold as a safe-haven asset.

Anyone looking to play anticipated gold price strength should consider investing in **Shanta Gold (SHG:AIM)**. By purchasing shares in a gold miner, investors are exposed to operational risks but there is scope for greater reward if the company delivers.

In our view Shanta is well placed heading into 2023. The company should benefit from an improved performance at its core asset New Luika in Tanzania, the start of production at the Singida mine (also in Tanzania) and as exploration results continue to demonstrate the outstanding potential of its West Kenya exploration asset.

New Luika is seeing an improvement in grades, the amount of metal within the ore dug out of the ground, after a tough 2021. This should provide Shanta with the cash flow to complete the commissioning of Singida, expected by March, fund more drilling at West Kenya and pay dividends.

Singida is expected to double Shanta's production to 100,000 ounces per year. The AISC or all-in sustaining cost is a key metric which shows the direct and recurring costs to mine a unit of ore. Shanta has guided for a life of mine AISC of $932 per ounce at Singida which compares with $1,207 at New Luika for the third quarter of 2022.

A lot of excitement around the stock is likely to be driven by the West Kenya project where Shanta has already enjoyed considerable exploration success. Shanta hopes to double an inferred resource of 1.5 million ounces at the project, which it describes as having 'bonanza-grade gold intercepts'.

It is important to understand the risks of investing in Shanta. It currently generates revenue from a single project and there is no guarantee that the second mine will start operations smoothly. The gold price can be volatile and unpredictable, and a lot depends on the dollar weakening for the metal price to pick up from the current $1,777 per ounce level.

Based on Liberum's forecasts the shares trade on an attractive 2023 free cash flow yield of 18.2%. The mining industry has already recognised the value on offer, with Shanta recently rebuffing takeover approaches from Shandong Gold and **Chaarat Gold (CGH:AIM)**. Further takeover interest cannot be ruled out. [TS]

Shanta Gold

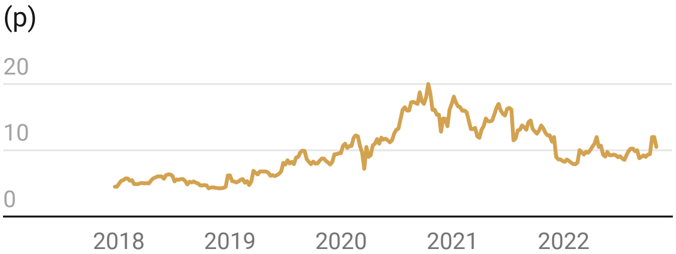


Chart: Shares magazine • Source: Refinitiv

Shanta Gold

Share price	9.02p
Market cap	£97 million
Forecast EPS 2023	1.5p
PE 2023	6
Forecast dividend 2023	0.2p
Dividend yield 2023	2.2%
Financial year end	31-Dec

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

WALT DISNEY

Six of the top 10 highest grossing films of all time have been produced by **Walt Disney (DIS:NYSE)** in the last 10 years. Owning the eponymous animation studio as well as the Pixar, Star Wars and Marvel franchises, the company has a strong claim to be the leading content and entertainment business in the world.

A 45% decline in the share price in 2022 to levels last seen in the early stages of the Covid-19 pandemic has created an outstanding buying opportunity. Buying shares in high quality businesses when they are going through a rough patch is often a successful investment strategy.

The return of Bob Iger to the top job after a difficult tenure for his one-time successor, now predecessor Bob Chapek, was received positively by the market when it was announced in November 2022.

Iger has given himself two years to get the 'House of Mouse' in order. To begin, he is likely to give divisional teams, particularly in the creative parts of the business, a freer hand to make their own decisions. A decentralised corporate structure was key to the success of Iger's previous tenure from 2005 to 2020. Reports suggest staff morale deteriorated when Chapek was in charge.

The returning boss may dial back content spend at the Disney+ streaming platform while pushing through further increases in the price of a subscription. Disney is rolling out an ad-supported version and we are confident in its ability to retain and attract subscribers thanks to a library of historically successful films and TV shows.

The company's cost structure is likely to be reviewed to see where savings can be made – if substantial, that alone is likely to be a major share price catalyst.

Disney's creations resonate with viewers on a deeper level than other entertainment because people can interact with them at the company's theme parks and resorts. This part of the business bounced back strongly in the 12 months to 1 October 2022, with revenue up 73% to $28.7 billion.

Credit ratings agency Fitch says: 'Disney's parks business has rebounded faster than expected and could have a stronger operating profile going forward as the company incorporates its dynamic pricing strategy to better balance park attendance and per-capita spending to expand operating margins.'

There are risks facing Disney including a structural downturn in its linear TV operations and a $45 billion debt pile (built up in part thanks to its 2019 acquisition of 21st Century Fox). Yet in our view these are more than reflected in the current valuation. [TS]

Walt Disney

Chart: Shares magazine • Source: Refinitiv

Walt Disney

Share price	$85.78
Market cap	$156.4 billion
Forecast EPS 2023	$4.13
PE 2023	20.8
Forecast dividend 2023	n/a
Dividend yield 2023	n/a
Financial year end	01-Oct

Table: Shares magazine • Source: Shares magazine, Stockopedia. Prices taken 20 Dec 2022.

TATE & LYLE, LONDON STOCK EXCHANGE AND JET2 SHINE IN OUR 2022 STOCK PICKS

SADLY THEY FAIL TO LIFT THE OVERALL PORTFOLIO AFTER A DIFFICULT YEAR FOR INVESTORS WORLDWIDE

In a year when just 27% of actively managed funds outperformed their benchmark, the US Nasdaq index delivered a 33% loss, the FTSE 250 index fell 22% and the FTSE All-World index dropped 20%, *Shares*' stock portfolio for 2022 also disappointed.

A year ago, we were aware that Russia might invade Ukraine but underestimated what such a move would have on inflation and interest rates, which in turn caused a terrible year for stocks and shares in general. Our portfolio struggled and we ended up with a 21.3% total return loss.

We suffered from the market rotation away from growth to value, meaning that stocks like sustainable wood technology play **Accsys Technologies (AXS:AIM)**, which was on 40 times forecast earnings when we pitched it, were no longer in fashion. For the first time in many years, investors were no longer willing to pay a high multiple of earnings to own growth stocks that promised 'jam tomorrow'.

Mega cap US technology companies like **Alphabet (GOOG:NASDAQ)** were out of favour, hurting out portfolio performance.

We also had too much exposure to consumer-facing companies and even when we picked a stock from the thriving energy sector, operational disappointments ultimately sank the performance of North Sea gas producer **IOG (IOG:AIM)**, wiping out earlier share price gains.

There were still some winners in the portfolio. **Tate & Lyle's (TATE)** shift to a strategy of focusing on speciality food and beverages in faster-growing markets has been a winner, driving an 11.5% total return for investors. On 10 November it unveiled a 20% increase in revenue to £849 million and a 29% increase in operating profit to £137 million.

Exchange provider **London Stock Exchange (LSEG)** achieved a 10% total return, delivering resilient earnings. A recent partnership with **Microsoft (MSFT:NASDAQ)** also created some buzz.

Cheap holidays outfit **Jet2 (JET2:AIM)** generated a 3.3% total return since we said to buy in December 2021 as it made a decent job of navigating a bumpy recovery for the travel sector.

Despite these bright spots, we are frustrated with the overall performance of the portfolio and hope to do better in 2023 with our new stock picks.

Shares' 2022 stock portfolio

Stock	1 year total return (%)
Tate & Lyle	11.5%
London Stock Exchange	10.0%
Jet2	3.3%
Roche	−5.6%
Schneider Electric	−18.5%
Loungers	−31.2%
Alphabet	−35.8%
Pets at Home	−39.2%
IOG	−43.6%
Accsys	−63.8%
TOTAL	**-21.3%**

**Entry price adjusted for stock split*

Table: Shares magazine • Source: Shares, Sharepad. Entry prices taken 21 Dec 2021. Latest prices taken 16 December 2022

The reasons why fund managers changed their mind on certain stocks in 2022

You can learn a lot from experts about when to reappraise an investment

While many investors will talk about wanting to hold shares for the long term, it is interesting to learn why fund managers decide to make changes to their portfolio. This active management is often spurred by changes to the investment case or valuation.

For example, **Pershing Square Holdings' (PSH)** manager Bill Ackman earlier this year held shares **Netflix (NFLX:NASDAQ)** for a mere three months. The reason why he decided to sell so quickly was a valuable lesson to all investors.

'We look for businesses that we can own forever, but we always reserve the right that if new information comes to light that causes us to reassess our original thinking, we are prepared to exit. Netflix is an example of that,' he told *Shares*' editor Daniel Coatsworth.

Ackman invested in Netflix after disappointing subscriber numbers attributed to a post-Covid hangover triggered a big sell-off in the share price. 'Three months later the company came back and said, "We're not sure this is actually Covid, we have a much larger number of people sharing passwords than we disclosed previously, and this is causing us to reassess our business model, so we'll go to an advertising model",' explained Ackman.

'While we (Pershing Square) have enormous confidence in the management team who have done a fantastic job over many years, this is a completely new approach for the business. For us, it made the future difficult to predict. We normally like businesses that are predictable, so we sold the shares.'

To further explore the topic of why investors change their mind on stocks, we asked numerous fund managers to explain how they've rejigged their portfolio over the past year.

Simon Barnard
Smithson Investment Trust (SSON)

We look to invest in good companies that can compound in value over many years, and then hold them for the long term. But of course, we are constantly analysing our portfolio in case something has changed in the company or its market that affects our original investment thesis.

One example is **Wingstop (WING:NASDAQ)** which was recently sold from our portfolio for several reasons. First, the long-standing CEO left for 'another opportunity' which is very often a warning sign. His exit has since been followed by several other senior departures.

Second, the company management is now hinting at a significant investment into the supply chain and for a chicken restaurant, this means chicken farming, which is obviously not what we expect or want from a capital-light franchised restaurant business.

Finally, we got lucky with the strong share price performance from Wingstop in the second half of the year which resulted in a high valuation and provided a good opportunity to sell.

Jamie Ross
Henderson EuroTrust (HNE)

We have reduced our exposure to the autos sector to zero this year. We previously had a position in auto manufacturer **Stellantis (STLA:BIT)** and one in auto parts supplier **Faurecia (EO:EPA)**. Our original thesis had been based around the recovery of sector margins due to constrained supply and the resulting high pricing. However, with supply returning to the market and debt-fuelled demand running at arguably unsustainable levels, we decided to exit our positions.

We increased our exposure to semi-conductor stocks having previously had only limited exposure. The sector has been very weak, led by falling demand in memory and consumer-facing areas.

However, towards the middle of 2022, we began to feel this cyclical sector was starting to approach the nadir of sentiment and we initiated two new positions to benefit from the recovery in the cycle. These new investments were **BE Semiconductor Industries (BESI:AMS)** and **ASM International (ASM:AMS)**, both Dutch-listed semi-conductor equipment companies.

Andy Brough
Schroder UK Mid 250 Fund (B76VYS2)

We sold low-cost airline **Wizz Air (WIZZ)** as the effects of the pandemic materially changed the investment case.

Travel and leisure companies emerged from the worst of Covid in need of rescue rights issues and laden with debt. We believed Wizz Air was markedly weakened and would struggle to compete with fellow low-cost carrier **Ryanair (RY4C:ETR)**, one of the better capitalised airlines globally. Ryanair was able to strengthen its market position and negotiate more favourable contracts for plane purchases.

Ryanair has recovered well, reporting profits for the first half of this year, and raising its full-year passenger forecast. Events over the last few years mean we no longer think Wizz Air can profitably compete with Ryanair.

Thomas Moore
Abrdn Equity Income Trust (AEI)

We sold our holding in online gaming business **Entain (ENT)** following the withdrawal of bid interest from **DraftKings (DKNG:NASDAQ)**.

While it was disappointing that the shares fell back following this announcement, we were still able to sell at over double the share price that we paid when we bought into the company in January 2017.

Freddie Lait
Latitude Horizon Fund (BDC7CZ8)

We exited our position in diabetes drug company **Novo Nordisk (NVO:NYSE)** and bought into drug distributor **McKesson (MCK:NYSE)**. Both companies have compounded earnings per share at around 18% per year for the past 15 years, have high barriers to entry and strong market positions. The switch came about due to valuation.

Given the recent moves in share prices Novo was trading on an elevated 27 times earnings, while McKesson was trading on a depressed 15-times.

Kartik Kumar
Artemis Alpha Trust (ATS)

We sold our position in serviced offices provider **IWG (IWG)** early in the year. The pandemic created increased adoption of hybrid working and whilst this should be a tailwind for the company, the evidence to date has been mixed.

The company, which owns Regus, also made an acquisition in February that increased debt levels, which has the potential to magnify downside risks.

Guy Anderson
Mercantile Investment Trust (MRC)

A theme capturing many of the reductions or exits we have made this year has been that of 'post-Covid normalisation'.

Two such examples are **DFS (DFS)**, the sofa retailer which benefited from a boom in demand during the pandemic but may suffer as consumers look to cut big-ticket expenditure, and **B&M (BME)**. The discount retailer is now seeing a normalisation of gross margins as demand for its general merchandise categories, having been particularly strong over the last couple of years, softens.

DISCLAIMER: Daniel Coatsworth who edited this article owns shares in Smithson Investment Trust

The story behind the month's big earnings upgrades

In most cases the share prices have already responded

Using data from Stockopedia, *Shares* has searched for the companies with the best earnings upgrades for this year and next over the last month.

We also noted their performance over the same period to see how much the upgrades had lifted the share prices, and the evidence is clear: all else being equal, upgrades tend to lead to outperformance.

Top of this month's list is 'challenger' gas, electricity and water supplier **Yu Group (YU.:AIM)**, which issued a trading update in November 2022 citing 'an exceptional trading performance' during the last couple of months meaning revenues and cash flow would 'significantly' exceed market expectations.

Prior to the update, earnings per share were seen just below zero for this year and next year, hence a small increase in absolute terms has become a huge increase in percentage terms.

In the case of mainstream energy supplier **Centrica (CNA)**, the earnings upgrades are much less dramatic which is reflected in its more modest share price performance.

However, if we dig into the data we can see that the upgrade cycle in Centrica started all the way back in May when 2022 earnings per share forecasts were hiked from 7.3p to 9.3p. Since May, the consensus has been rising steadily and full-year earnings are now seen at 20.7p per share or almost three times the level forecast in April.

Retailer **Card Factory (CARD)** surprised the market with its latest trading update where it upped its forecasts for full-year EBITDA (earnings before interest, tax, depreciation and amortisation) and pre-tax earnings due to stronger-than-expected second half trading.

The news clearly caught the market offside as the shares, which had been languishing close to multi-year lows, have jumped more than 50% in the last month.

By **Ian Conway** Companies Editor

UK stocks with the best earnings revisions in the last month

Company	One-month upgrade to this year's earnings	One-month upgrade to next year's earnings	One-month share price	Forecast PE
Yu Group	11,268%	12,517%	49%	12.2
Altitude	60%	27%	55%	33.9
CML Microsystems	42%	39%	18%	25.1
Centrica	19%	14%	10%	4.3
Card Factory	17%	2%	54%	10.6
Billington	16%	12%	10%	8.7
Balfour Beatty	12%	3%	12%	9.2
Foxtons	12%	10%	-9%	11.0
Tristel	11%	11%	18%	40.0

Table: Shares magazine • Source: Stockopedia. Data correct as of 15 December 2022

Cerillion's share price is up 729% in five years: here's why

Telco software supplier is in the midst of a structural investment cycle

Amid the debris of UK share price performance this year a little-known software story has been knocking it out of the park. Aim-traded **Cerillion (CER:AIM)** has seen forecasts upgraded through 2022, ending up with record full year statutory profits, revenues, and a bulging order pipeline of new business.

Having started the year at 916p, by early March the stock had fallen to 602p, then a new rally kicked in. The shares are currently trading £12, just 6% off their all-time higher of £12.80 set in November.

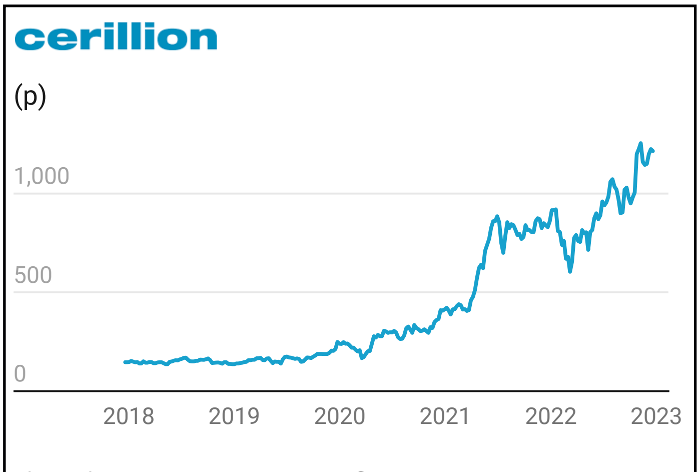


Chart: Shares magazine • Source: Refinitiv

WHAT HAS BEEN DRIVING THE SHARE PRICE LONGER TERM?

Cerillion built its reputation on an integrated enterprise billings and customer relationship management software platform sold to large telecoms companies, but it has expanded the suite to cover charging, interconnect, mediation and provisioning solutions.

Importantly, it has also developed a cloud-based billings solution named Skyline that can be deployed outside of the telecoms industry and is available for public and private cloud delivery. Skyline is sold both direct and through channel partners to telcos and other utilities, finance companies and transport businesses.

5G mobile network investment is benefiting Cerillion. This is a huge investment cycle for the industry, and it has forced many large telcos to look at their IT stack to see where opportunities exist in delivering consumers new services.

Cerillion's suite offers the industry the kind of flexibility needed to monetise 5G and fibre investments in a challenging market backcloth, hence a big upgrade cycle and high demand for the company's proven products.

Increasingly selling five-year software-as-a-service contracts, Cerillion's investment in its IT suite means it has more tools in its stack to sell to clients, so average contract sizes have been rising.

GROWING ORDER PIPELINE

This helps explain an order pipeline increase of 43% in its recent financial year to £209 million, and revenue growth of 26% to £32.7 million. In the past revenue growth has been nearer 10%.

Statutory pre-tax profit jumped 47% to £10.9 million, or 40% to £11.9 million if you adjust for amortisation. It had net cash worth £20.2 million at the September year end.

Contracts tend to provide income reliability. Cerillion says 98% of income stems from organisations that were customers before the past financial year. This makes Cerillion not just attractive to retail investors, but potentially to private equity buyers.

Sticky recurring revenues that generate good cash flows are to private equity firms like nectar to bees. Return on capital employed is forecast at 38.5% by analysts at Berenberg, and they see above-market average growth and shareholder returns over the next couple of years.

By **Steven Frazer** News Editor

DANNI HEWSON
AJ Bell Financial Analyst

Picking through a really difficult year for the retail sector

The winners, the losers and what's required to thrive for the long term

The latest retail sales figures in both UK and US were the mouldy icing on top of a rapidly crumbling cake. Despite Black Friday promotions that seemed to start right at the beginning of November, UK retail dropped off significantly and the US experienced the biggest fall in sales in 11 months.

People are having to make tough choices about what exactly it is they want from the festive season. What can they do without and what are the traditions and expectations that can't be ditched if Christmas is to feel like Christmas and not a poor substitute?

FOOD A FESTIVE PRIORITY

In the UK people seem to have been prioritising food spend, popping a few extras into their trolleys as they carried out the weekly shop throughout November. All those little tasty treats add up when food inflation is rising at the fastest rate in 45 years. And with budgets so tight if people are spending a bit more on food and drink, they've got to cut back elsewhere.

Retailers are having to fight hard for every discretionary pound and investors have been heading for the hills. On the day the ONS released its retail update only one of the FTSE 350 retail stocks wasn't in decline – that was online fast fashion play **ASOS (ASC)**. If you look back to the start of the year it's a sea of red with all FTSE 350 retail stocks down and ASOS is the biggest faller, down a whopping 79%.

From the first trading update of 2022 retailers were warning of a 'tougher environment' with bellwether **Next (NXT)** cautioning about increases in costs of goods, UK operating costs and wage inflation.

Next share price over the last five years

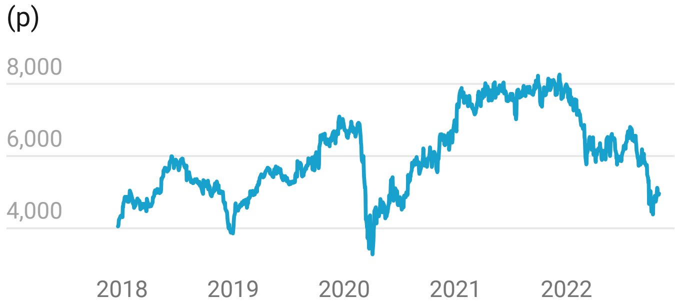


Chart: Shares magazine • Source: Refinitiv

Despite early optimism from some traders that a reopening economy would rejuvenate the sector, the insidious creep of inflation has defeated several household names both from the high street and online.

Online sofa seller Made.com, womenswear veteran Joules and Saville Row tailor Gieves and Hawkes were among the retailers calling in administrators as margins became wafer thin and consumer behaviour was turned on its head.

Trendspotters were at a loss as what used to sell, stopped selling in the same way. Warehouses that had struggled to bring in goods during supply snarl ups became packed liabilities.

Some retailers, like Zara owner **Inditex (ITX:BIT)**, figured out a way to sell goods at higher prices, ramping up stocks of must-have occasion wear with a social media cachet. That approach pulled in some customers normally more at home in luxury stores.

DANNI HEWSON
AJ Bell Financial Analyst

running of the business. So far Michael Murray's 'elevation' strategy seems to be a good bet with higher-end stores being cushioned from the worst of the cost-of-living crisis by the nature of their customers.

Longer-term, with few challengers left in the department store environment, and a roster of brands that could fill a monopoly board, it's worth watching the integration of old and new.

That's something Next is a master at and its hybrid operation coupled with a knack of keeping expectations at a manageable level, gives the business a decent measure of resilience.

Despite solid trading updates this Christmas isn't expected to be a stellar one and with inflation expected to hang around like a bad smell well into 2023 investors are rightly concerned about how much further retailers can put up prices. Primark-owner **Associated British Foods (ABF)** even promised customers there would be no more hikes this year from its retail chain.

Inditex share price over the last five years

(€)

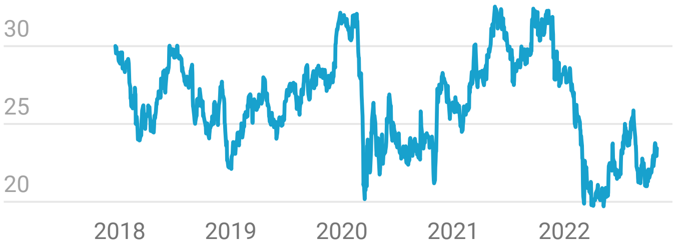


Chart: Shares magazine • Source: Refinitiv

NEXT AND FRASERS ADD TO THEIR EMPIRES

Next and **Frasers (FRAS)** muscled their way through the last year by adding girth to their already sizable empires. Frasers' stock had been in the green until recently, but the market is nervous about rising inventory levels and the fact much of the increase in sales for the business has come because of store openings and acquisitions.

There are also questions about Frasers' future as controversial figure Mike Ashley has taken a step back from the day to day

Notable new additions to Next and Frasers' retail portfolios as rivals collapse

Company	Collapsed	Acquired by
Studio Retail	Feb '22	Frasers
Missguided	Jun '22	Frasers
Made.com*	Nov '22	Next
Gieves & Hawkes	Nov '22	Frasers
Joules*	Dec '22	Next
Amara.com	Dec '22	Frasers

Table: Shares magazine • Source: Company accounts. *Some assets

SPOTTING TRENDS CAN REAP YOU REWARDS

Despite retail's 'annus horribilis' it hasn't been all bad news for investors in retail stocks if they are taking the long view. Some retailers will have made you money over the last five years. If you'd invested £5,000 in Frasers or Next then you'd be sitting on £9,945 and £7,635 respectively today (indicative return not encompassing fees and charges).

It's all about spotting trends, figuring out how consumer habits are going to change and working out which companies are best positioned to respond to those changes. Whilst the last five years has been predominantly about online possibilities the last 12 months has shown that the virtual high street has grown too big, too fast.

There will be further failures but there will also be opportunities once inflationary pressures begin to ease. The key will be knowing the customer and giving them exactly what they want for as much as they're willing to pay.

Why 2022 has been a year for active managers to forget

Just 27% of actively-managed funds have beaten their passive counterpart this year

In a year when markets have fallen and long-standing trends have gone into reverse, you might have expected active fund managers to have a field day compared to passive funds which blindly track the index.

But you'd be wrong. Just 27% of active equity managers beat a passive alternative in the first 11 months of 2022, according to AJ Bell's latest *Manager versus Machine* report. That's down from 34% in 2021. Clearly this is not a good result, but before you start ditching all your active funds and replacing them with trackers, there are some mitigating factors which need to be considered.

WHY UK ACTIVE FUNDS HAVE STRUGGLED TO OUTPERFORM

A lot of active manager underperformance came from the UK fund sector. Here, only 13% of active funds beat a passive alternative in 2022, compared to 41% last year. This is undoubtedly a very poor result but can be explained in part by active managers' propensity to hold more small and mid-cap companies in their portfolio than a tracker fund, and consequently have a lower weighting to large blue-chip companies. It's the latter which have held up much better in 2022, thanks to performance from the energy sector, as well as tobacco, defence and pharmaceutical companies.

The performance gap between the big blue chips of the UK stock market and more modestly sized companies has been stark in 2022. The FTSE 100 returned 6% between 1 January and the end of November, while the FTSE 250 mid cap index returned -16% and the FTSE Small Cap index returned -14%. It's easy to see why a higher exposure to more modestly sized companies therefore hobbled the performance of active managers in 2022.

Over the long term, hunting further down the market cap scale has been a positive tailwind for active managers in the UK, because over 10 years, the FTSE 100 has returned 89%, whereas the FTSE 250 has returned 106% and the FTSE Small Cap has returned 152%. That goes a long way to explaining why six out of ten active managers have outperformed a passive alternative if you look at returns across the last decade.

A GOOD YEAR FOR US-FOCUSED ACTIVE MANAGERS

It's not been all bad news for active funds either. Those active fund managers plying their trade in the US actually had a relatively good year. Forty percent of active managers investing across the pond outperformed a passive alternative in 2022. That may not sound like a victory for active managers, but it compares to only 19% performing the same feat last year.

In 2022, US active managers had to navigate a sell-off in the tech sector, which seriously dented the share prices of some of the behemoth companies in the US stock market, like **Amazon (AMZN:NASDAQ)**. These mega cap companies are so big, tracker funds invest quite heavily in them, seeing as they usually replicate the market according to company size, so poor performance from these stocks has given active managers with less exposure a bit of a leg up this year.

The growth of passive investing has pumped some fresh life into the UK's investment industry

Proportion of active funds outperforming the average passive fund

IA Sector	2022 YTD	5 Years	10 Years	2021
Asia Pacific Ex Japan	12%	19%	47%	26%
Europe Ex UK	43%	40%	51%	53%
Global	30%	21%	20%	25%
Global Emerging Markets	21%	36%	44%	50%
Japan	36%	37%	49%	47%
North America	40%	17%	17%	19%
UK All Companies	13%	27%	60%	41%
TOTAL	27%	26%	39%	34%

Table: Shares magazine • Source: AJ Bell, Morningstar, total return in GBP to 30th November 2022, 2021 data to 1st Dec 2021

in the last 10 years; not so much for active fund managers, but for private investors. It's provided everyone a way to get simple exposure to markets at low cost. But unfortunately, not all passive funds got the memo.

WHY SOME PASSIVE FUND CHARGES ARE A RIP OFF

Data from the *Manager versus Machine* report shows there is quite a wide range of charges levied by tracker funds, and a pretty egregious premium charged by some tracker funds in the UK All Companies sector. Here the cheapest tracker fund comes with a price tag of 0.05% per year, and the most expensive charge levied for a fund in this sector is 1.06% per year. In other words, the most expensive UK tracker fund costs 21 times more than the cheapest.

Unlike with active managers, there can be no attempt to justify higher charges through superior performance potential, seeing as these funds are doing a very similar job of tracking an index. To put this in pounds and pence, an investor who switched £10,000 from the most expensive UK tracker fund to the cheapest would be £6,627 better off after 20 years, assuming a 7% gross return from the market. There can be little reason for investors not to make such a rewarding switch.

Overall, the picture in 2022 has been pretty discouraging for active investors. However, it's important to set expectations appropriately. Clearly not every active manager can beat the market, and in a 'neutral' scenario you would expect around half to outperform and half to underperform, before charges.

Things look better over the longer term for active managers with 39% outperforming over 10 years, and that figure stood at 56% in 2021, which goes to show that even long run performance can be heavily impacted by recent market movements.

Investors needn't be dogmatic about sticking to only active or passive funds, in fact they might choose active managers in some regions and passive funds in either, depending on where they think active managers have a better chance of outperformance, or based on their conviction in the prowess of particular fund managers.

By picking competitively priced tracker funds, and supplementing this with a bit of judicious active fund selection, investors can give themselves a good chance of achieving portfolio outperformance in the long run, through a combination of both active and passive strategies.

DISCLAIMER: AJ Bell owns Shares magazine. The editor of this article, Tom Sieber, owns shares in AJ Bell

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

Revealed: the best and worst performing emerging markets in 2022

Turkish stocks have soared, Indian shares hit new record highs but China has struggled

The strong dollar, surging inflation and China's Covid woes have presented a big challenge for stocks in developing countries in 2022 but some emerging markets have performed well.

Data from Refinitiv shows 24 MSCI emerging markets indices have generated a return of 2.1% in 2022 on a non-weighted average basis.

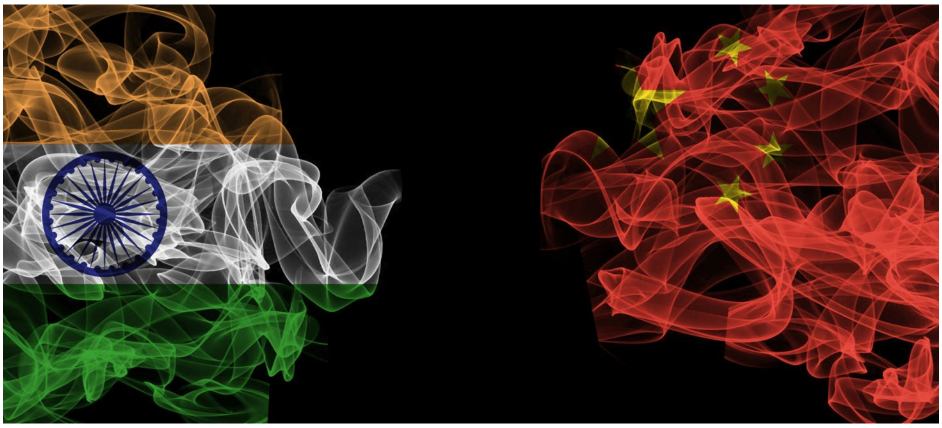
The headline MSCI Emerging Markets index is down more than 20% though thanks to the extremely weak performance of the Chinese market, which has a dominant weighting.

Investors will be hoping China is now at an inflection point as it readies for a relaxation of Covid rules next spring.

The standout performer is Turkey which has bounced back strongly this year. Domestic investors have been piling into Turkish stocks as a way of beating inflation and the country's central bank has bucked the global trend by reducing interest rates despite surging prices. Valuations were also cheap after a long period of underperformance.

Of the larger emerging markets, India stands out. Indian shares reached all-time highs in early December, supported by a resilient economy, financial reforms and an administration which is perceived as being increasingly pro-business.

Apart from China, other markets which struggled included those exposed to geopolitical risks with tensions over Taiwan, and Beijing's claims to it, mounting. Hungary and Poland suffered thanks to their close proximity to the Ukrainian conflict and acute exposure to surging energy prices.



Emerging markets - best and worst performers in 2022

Index	2022 performance (%)
MSCI Turkey	134.7%
MSCI Egypt	26.9%
MSCI Kuwait	11.4%
MSCI Indonesia	9.9%
MSCI India	4.1%
MSCI Poland	-26.0%
MSCI Hungary	-22.5%
MSCI Korea	-21.0%
MSCI Taiwan	-20.9%
MSCI China	-20.6%

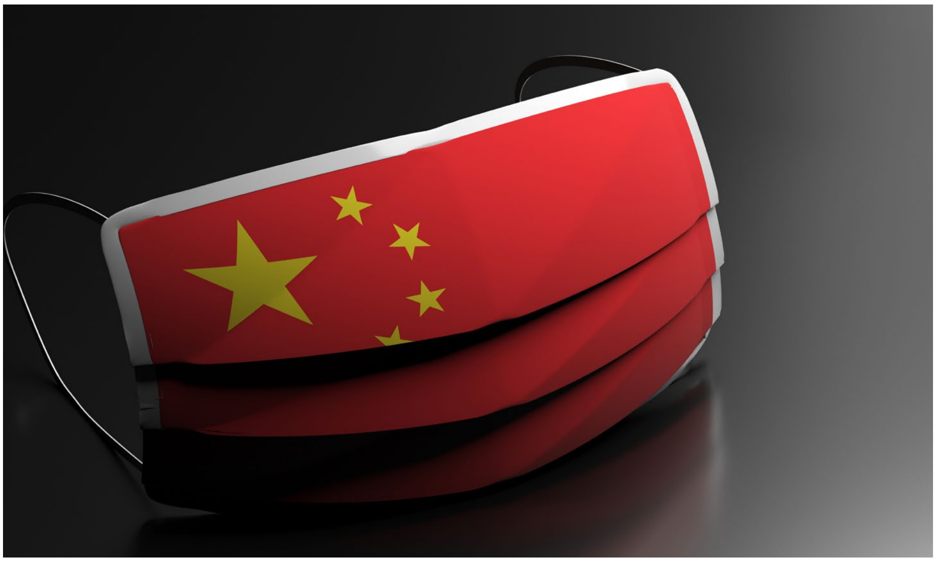
Table: Shares magazine • Source: Refinitiv, data from 31 Dec 21 to 12 Dec 22

Emerging markets: Views from the experts

Three things the Franklin Templeton Emerging Markets Equity team are thinking about today

1. China reaches an inflection point: China's inflection point began with the easing of access to credit in the property sector in October 2022. The reset in US China relations at the G20 meeting in Bali between China's president Xi Jinping and US president Joe Biden in November followed. The final piece of the jigsaw was the dismantling of China's zero-Covid policies, which started in November and accelerated in December. Changes in selected cities include home quarantine for positive cases, removal of the requirement for polymerase chain reaction (PCR) test results to travel on public transport, and a reduction in daily testing for school children.

2. Peaking US inflation data: The US median Personal Consumption Expenditure Price Index (PCE), a key measure of inflation, is expected to decline from 6.3% in 2022 to 3.5% in 2023. The high base effect is seen driving the decline, along with an easing of supply chain bottlenecks and the negative effect on growth from higher interest rates. While a slowdown is anticipated, there has been uncertainty over the timing of the peak in inflation. Recent data signal the peak may now be behind us, enabling investors to focus on slower inflation in 2023 and a possible change in the US Federal Reserve's pace of rate hikes.



3. Earnings recovery in 2023: The prospect for a recovery in earnings growth in 2023 is likely to act as a catalyst for markets, as the slowdown in 2022 earnings has been a concern. In emerging markets (EMs), earnings growth is also forecast to recover; China is likely to be a leader with 15% estimated growth. A pickup in earnings revisions in EMs would act as a confirmation of better times ahead for earnings and, in turn, equity markets.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

Investment trusts which have outperformed in a big way in 2022

There have been some standout names in various parts of the trust universe

Achieving decent returns has been difficult in 2022 as shareholders in many investment trusts have found to their cost. According to data from the Association of Investment Companies, the average one-year share price total return from all trusts (excluding venture capital trusts) is -13.7%.

However, several trusts have really stood out from their sector peers this year. In this article we highlight notable outperformers in some of the most high-profile trust groupings.

GLOBAL

Selected AIC Global trusts ranked by performance

Trust	12-month share price total return (%)
F&C Investment Trust	2.1%
Brunner	−3.9%
Alliance Trust	−4.8%
Witan	−7.7%
AVI Global	−8.5%
Lindsell Train	−13.3%
Bankers	−15.6%
Monks	−26.7%
Scottish Mortgage	−43.3%

Table: Shares magazine • Source: Association of Investment Companies, data to 13 December 2022

It has been hard going for trusts which look to invest with a worldwide remit. The average share price total return for the sector of -27.3% in 2022 reflects a weak performance for popular trusts like **Scottish Mortgage (SMT)** which has suffered this year from exposure to out of favour growth companies in the technology sector.

In this context **F&C Investment Trust's (FCIT)** ability to generate a positive return (2.1%), the only global trust to do so, is testament to its diversification. Being invested in some strong areas has compensated for weakness elsewhere.

Providing exposure to many individual managers F&C Investment Trust aims to be a one-stop shop for investors, with holdings in stocks like **Microsoft (MSFT:NASDAQ)** and pharmaceutical giant **Merck (MRK:NYSE)** alongside unquoted securities and private equity. The trust, the first of its kind when it launched in 1868, trades at a 2.1% discount to net asset value and has a 0.54% ongoing charge.

GLOBAL EQUITY INCOME

Selected AIC Global Equity Income trusts ranked by performance

Trust	12-month share price total return (%)
Murray International	20.5%
Henderson International Income	9.2%
Securities Trust of Scotland	4.5%
JPMorgan Global Growth & Income	−4.5%

Table: Shares magazine • Source: Association of Investment Companies, data to 13 December 2022

Generous dividends have become more prized in a rising interest rate environment, and this is reflected in a decent showing for income-focused global trusts.

Murray International (MYI) has performed far better than its peer group with a 20.5% total return over the past 12 months.

Prior to 2022 it suffered for its lack of exposure to big US technology stocks but that has turned from a weakness to a strength as this part of the market has endured a heavy sell-off.

Numis recently commented on the trust: 'We believe Murray International remains an attractive option for more defensively minded investors looking for yield, particularly given the uncertain macro backdrop.'

Steered by Bruce Stout since 2004, its largest holding is Mexican airport operator **Grupo Aeroportuario del Sureste (ASURB:BMV)** but it also holds more familiar names like consumer goods firm **Unilever (ULVR)** and US tobacco group **Philip Morris International (PMI:NYSE)**. Murray's shares trade on a 0.6% premium to net asset value and offer a yield of 4.2%. The ongoing charge is 0.57%.

NORTH AMERICA

Selected AIC North America trusts ranked by performance

Trust	12-month share price total return (%)
North American Income	14.2%
BlackRock Sustainable American Income	8.5%
Middlefield Canadian Income	2.8%
JPMorgan American	−2.9%
Pershing Square	−11.0%
Baillie Gifford US Growth	−50.0%

Table: Shares magazine • Source: Association of Investment Companies, data to 13 December 2022

After years of delivering strong returns to investors, US shares have been sunk this year by a strong dollar and the US Federal Reserve's aggressive rate hikes aimed at tackling inflation.

Investment trusts with an income focus have bucked a negative average 12-month total return for the sector of -12.8%. Particularly impressive is the double-digit positive total return (14.2%) from **North**

American Income (NAIT), which also has a decent track record on a longer-term view.

It has a concentrated portfolio and stocks tend to be held for the long term although managers Francis Radano and Ralph Bassett will trim and top up positions in response to short-term shifts in valuation.

While there is an emphasis on finding undervalued stocks, there is also a focus on quality to avoid value traps. Top holdings include broadcaster **Comcast (CMCSA:NASDAQ)** and energy services firm **Baker Hughes (BHI:NYSE)**.

Trading at a 7.5% discount to net asset value, the fund pays a quarterly dividend and offers a yield of 3.25%. Ongoing charges total 0.88%.

Selected AIC UK All Companies trusts ranked by performance

Trust	12-month share price total return (%)
Fidelity Special Values	-4.2%
Aurora	-5.5%
Henderson Opportunities	-15.5%
Schroder UK Mid Cap	-18.9%
Artemis Alpha Trust	-20.1%
Mercantile	-20.3%
Baillie Gifford UK Growth	-27.7%

Table: Shares magazine • Source: Association of Investment Companies, data to 13 December 2022

Despite the FTSE 100 outperforming many counterparts in developed countries this year, by trading roughly flat, only two trusts in the UK All Companies sector have avoided double-digit losses.

Both are value-orientated, making them better suited to the market backdrop. While both trust's showings will ultimately have still been a disappointment to investors, they held up materially better than their peer group.

Whereas some names like **Baillie Gifford UK Growth (BGUK)** delivered a near-30% loss over the past 12 months, **Fidelity Special Values (FSV)** saw a mere 4.2% decline.

Numis comments: 'Alex Wright's track record since taking over as Fidelity Special Values' portfolio manager in September 2012 remains exceptional with net asset value total returns of 189% versus 89.5% for the FTSE All Share.

'We rate the manager highly and admire his investment approach which has a strong contrarian flavour, looking for unloved stocks where the downside is limited and there is a catalyst for change.

'However, investors should therefore not be surprised to see periods when performance is distinctly different from the index.'

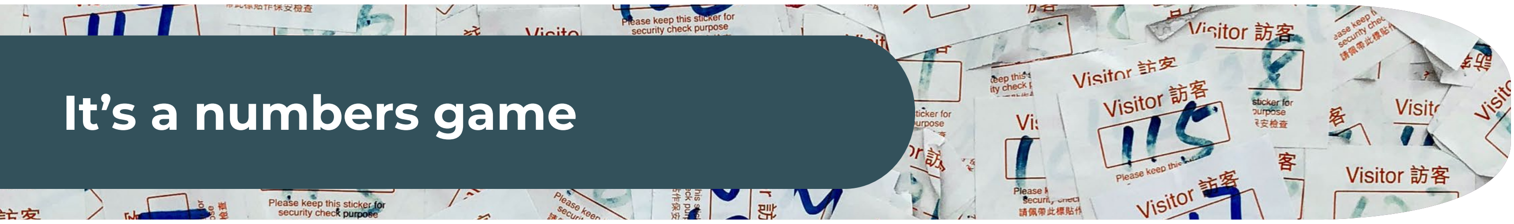
Names in the portfolio include support services outfit **Serco (SRP)**, **Barclays (BARC)** and tobacco stock **Imperial Brands (IMB)**.

Also performing much better on a relative basis than the peer group was **Aurora (ARR)**. Its investment process involves maintaining a laser focus on cash flow and how this relates to a company's valuation.

The trust also does a lot of work to get under the bonnet of the companies it invests in. 'We spend a lot of time understanding the nuts and bolts of how businesses make their money. We walk the aisles of supermarkets to understand UK food retail, visit hundreds of building sites to understand housebuilders and attend obscure German conferences about steel production to understand more about engineering.'

Companies currently in the portfolio include retailer **Frasers (FRAS)**, **Barrett Developments (BDEV)**, **Netflix (NFLX:NASDAQ)** and **EasyJet (EZJ)**. The shares are roughly in line with net asset value and the ongoing charge is 0.49%.

By **Tom Sieber** Deputy Editor



It's a numbers game

The projected growth, and wealth, of Asian populations supports the long term outlook for the region in spite of a troubled short term outlook for equities everywhere...

In the 12 months to the end of October, not one of the 24 trusts in the Association of Investment Companies' UK Smaller Companies sector had delivered positive NAV or share price returns for shareholders.

A similar story has played out in Asia, with many trusts investing in the region facing headwinds. Fears about a prospective recession and how that will impact the region have likely been behind some of the sell-offs we've seen in the sector.

Those macroeconomic fears are understandable but they don't necessarily reflect the long-term potential that Asia has. The region contains 60% of the world's population and looks likely to be a key area of global economic growth in the years ahead. According to the Brookings Institute, a US think tank, people in Asia made up less than 20% of the global middle class in 2000. By 2020 that had risen to 50% and the region is forecast to add another billion members to the consumer class by the end of this decade.

It's this potential which the team at **JPMorgan Asia Growth & Income (JAGI)** look to take advantage of. The managers look for high quality businesses across the region that can deliver compounding returns to shareholders via strong earnings growth. They attempt to achieve this via bottom-up stock picking, taking advantage of a large research team, comprised of close to 100 analysts, half of which are based across Asia.

As that implies, this means the JAGI managers are not driven by top-down macroeconomic data when making investment decisions. Instead they find that their bottom up approach to markets means the companies end up fitting into three broad themes, namely lifestyle upgrades, demographic changes and financial deepening.

All three of the themes fit with the wider economic growth, and rising middle class, that we see across Asia. For instance, lifestyle upgrades might mean consumers starting to use certain products or spending more on them. Unilever Hindustan, one of JAGI's holdings, illustrates this. The company has seen its profit increase by 11% on an annualised basis over the last five years, with India's growing middle class spending more on things like shampoo and tea.

It's a similar story with the financial deepening theme, with individuals across Asia using a wider array of financial products and services as they become wealthier. Indonesians, for example, now use debit cards 3x as much as they did a decade ago.

Bank Central Asia (BCA) has catered to these developments and seen tremendous growth over the past two decades as a result. The bank, a JAGI holding that mainly serves customers in Indonesia, has expanded its range of mortgages and added products like debit and credit cards and mobile payments in that time. The results have been positive, with the banking group delivering annualised profit growth of 11.25% over the past ten years.

Part of the reason JAGI has been able to take advantage of the opportunities that companies like Hindustan Unilever and BCA present is because of the comparatively low level of coverage that they receive relative to their peers in developed markets.

According to FactSet, there were around 21 analysts covering the average US large cap in 2021. Even US micro-caps had an average of three analysts covering them. In contrast, there are companies across Asia that receive little to no coverage from analysts, despite the opportunities that are available in the region.

In the past this has arguably been a contributing factor in active managers' ability to generate alpha for their investors. One comprehensive study by the Wall Street Journal looked at returns for active managers by country from 2008 to 2018. It was in China and India that active management was able to deliver the highest average level of alpha. In contrast, most US managers struggled to generate any outperformance of their benchmarks.

Despite this, Asian companies still receive comparatively less coverage relative to their peers and JAGI, with its large team of on the ground analysts, is still well-placed to take advantage of this dynamic.

The same is true of the themes that the trust managers try to take advantage of. Even though we're in the midst of a tough economic environment, the mix of population growth and an increasingly wealthy consumer class is still there and looks capable of driving returns for investors in Asian companies in the future.

Whether or not that actually does happen is up to investors to decide and – given the myriad risks which investors face at this time – we would caution those emboldened by the rhetoric of Rothschild or Buffet to remember that there is a fine line between aphorism and platitude. That said, with JAGI trading at a close to 11% discount, those who believe the long-term case for Asian equities remains intact – supported by the factors we have described here – may see an opportunity in these troubled times.

Click **here** to read our latest research on JPMorgan Asia Growth & Income...

I’m moving abroad. Will I pay tax in the UK on my pension withdrawals?

Anyone in this situation needs to understand something called QROPS

I’m 55 next year and able to access a private pension I’ve built up in the UK. My wife and I are in the process of emigrating to Thailand on a retirement visa and once resident in Thailand I’m wondering if I can take the entire amount of the private pension without paying tax on it in the UK.

I’m aware of the tax position on income in Thailand but have been unable to find an answer to the above. Can you help? This pension is not our main income.

Anonymous

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

Retiring abroad remains the dream for lots of people, and it’s important to get your financial ducks in a row before making the move. One of the key things to think about is the tax implications for your private pension.

How much tax you pay and where you pay it is usually determined by where you’re considered to be a resident. If you retire abroad but are still considered a UK resident for tax purposes, you may have to pay UK tax on your pension.

If you are no longer a UK resident, you don’t usually have to pay UK tax on your pension, although you may have to pay tax in the country you live in. There are some exceptions to this – for example, civil service pensions are always taxed in the UK.

If you live in a country without a ‘double taxation agreement’, it is possible you will pay tax in both countries. However, Thailand has had a double taxation agreement with the UK since the early 1980s, so this shouldn’t be an issue for you. You will, however, need to tell HMRC you are a

non-resident so they can send your pension provider an ‘NT’ (no tax) code.

WHAT ARE ‘QROPS’ AND WHY DO THEY MATTER?

As you’re considering retiring abroad, you may have come across ‘qualifying recognised overseas pension schemes’, or QROPS.

A QROPS is a type of overseas pension plan recognised by HMRC that can receive pensions built up in the UK.

You do not have to join a QROPS if you want to retire overseas – private or workplace pensions can be paid to you wherever in the world you decide to retire.

If you join a QROPS established in the country you reside in, you’ll get your pension in local currency and so avoid the uncertainty of exchange rate rises and falls. However, this isn’t an option in Thailand as there are no QROPS based there.

Transfers to QROPS are subject to a 25% HMRC charge unless any one of the following conditions are met:

- You are resident in the country where the QROPS receiving your transfer is based
- You are resident in a country in the European Economic Area and the QROPS to which you are transferring is based in another EEA country

- The QROPS to which you are transferring is an occupational pension scheme and you are an employee of a sponsoring employer under the scheme

- The QROPS to which you are transferring is an overseas public service scheme and you are employed by an employer that participates in that scheme

- The QROPS to which you are transferring is a pension scheme of an international organisation and you are employed by that international organisation

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

It's worth noting that if you are under age 75 and transfer to a QROPS your fund will be tested against the UK lifetime allowance. This is currently set at £1,073,100 and any pension savings above this level will be hit with a charge of 25%.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

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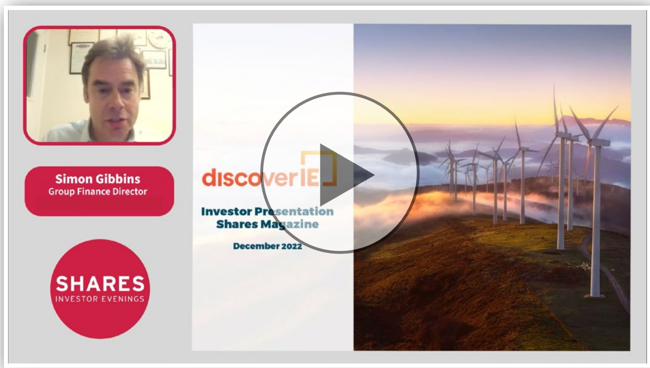

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Simon Gibbins, Group Finance Director &
Lili Huang, Head of Investor Relations

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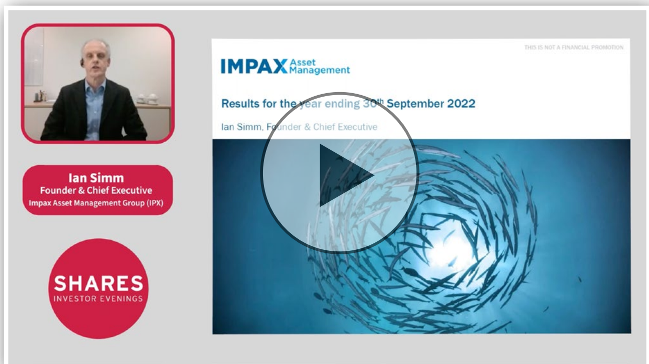

Impax Asset Management Group (IPX)
Ian Simm, Founder & Chief Executive

Impax Asset Management Group (IPX) offers a range of listed equity, fixed income and private markets strategies. All strategies utilise the firm's specialist expertise in understanding investment opportunities arising from the transition to a more sustainable economy.

Trident Royalties (TRR)
Adam Davidson, CEO

Trident Royalties PLC plan to rapidly establish itself as a diversified mining royalty and streaming company, providing investors with exposure to base and precious metals, bulk materials (excluding thermal coal) and battery metals.

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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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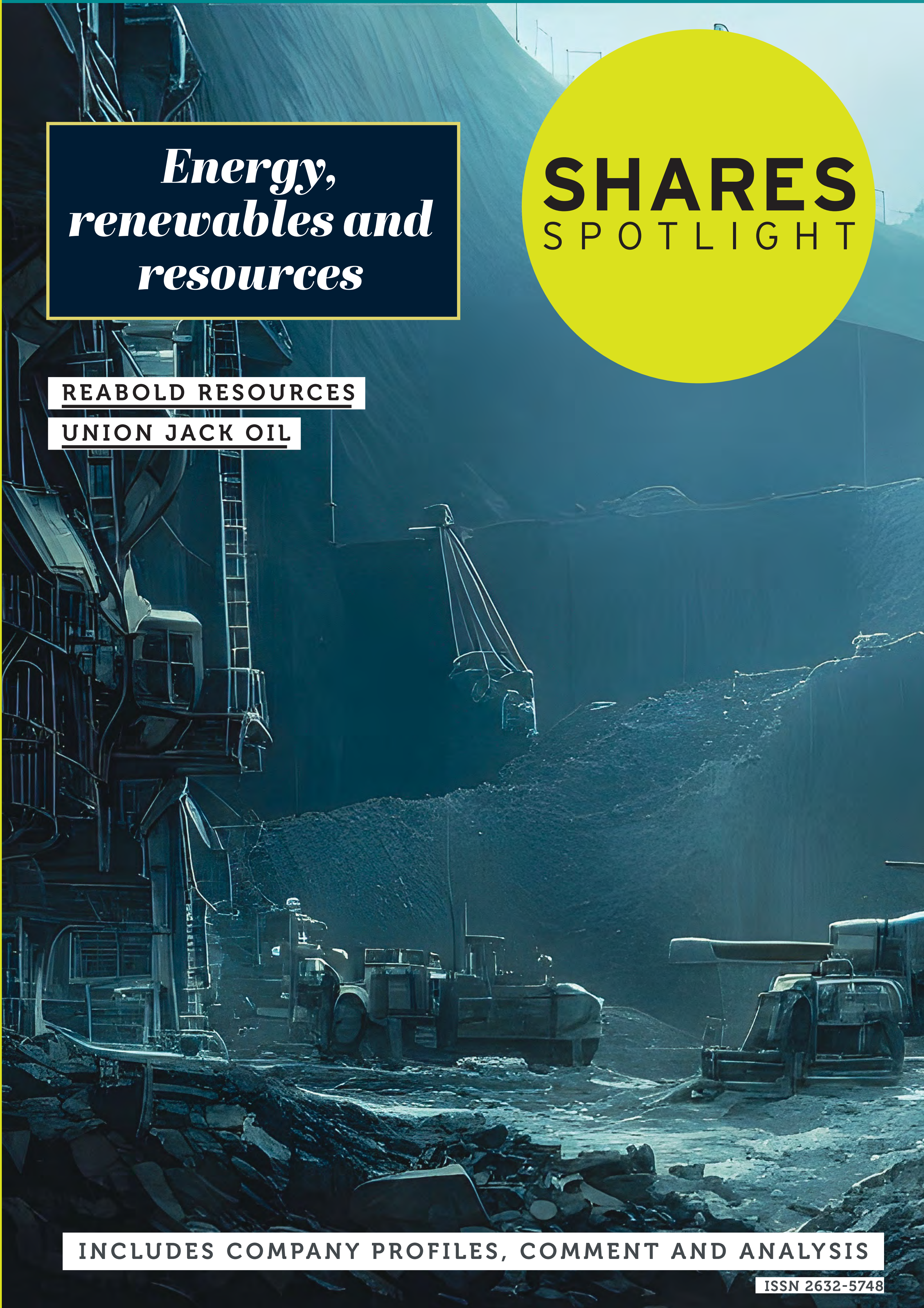

Energy, renewables and resources

SHARES SPOTLIGHT

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DECEMBER 2022

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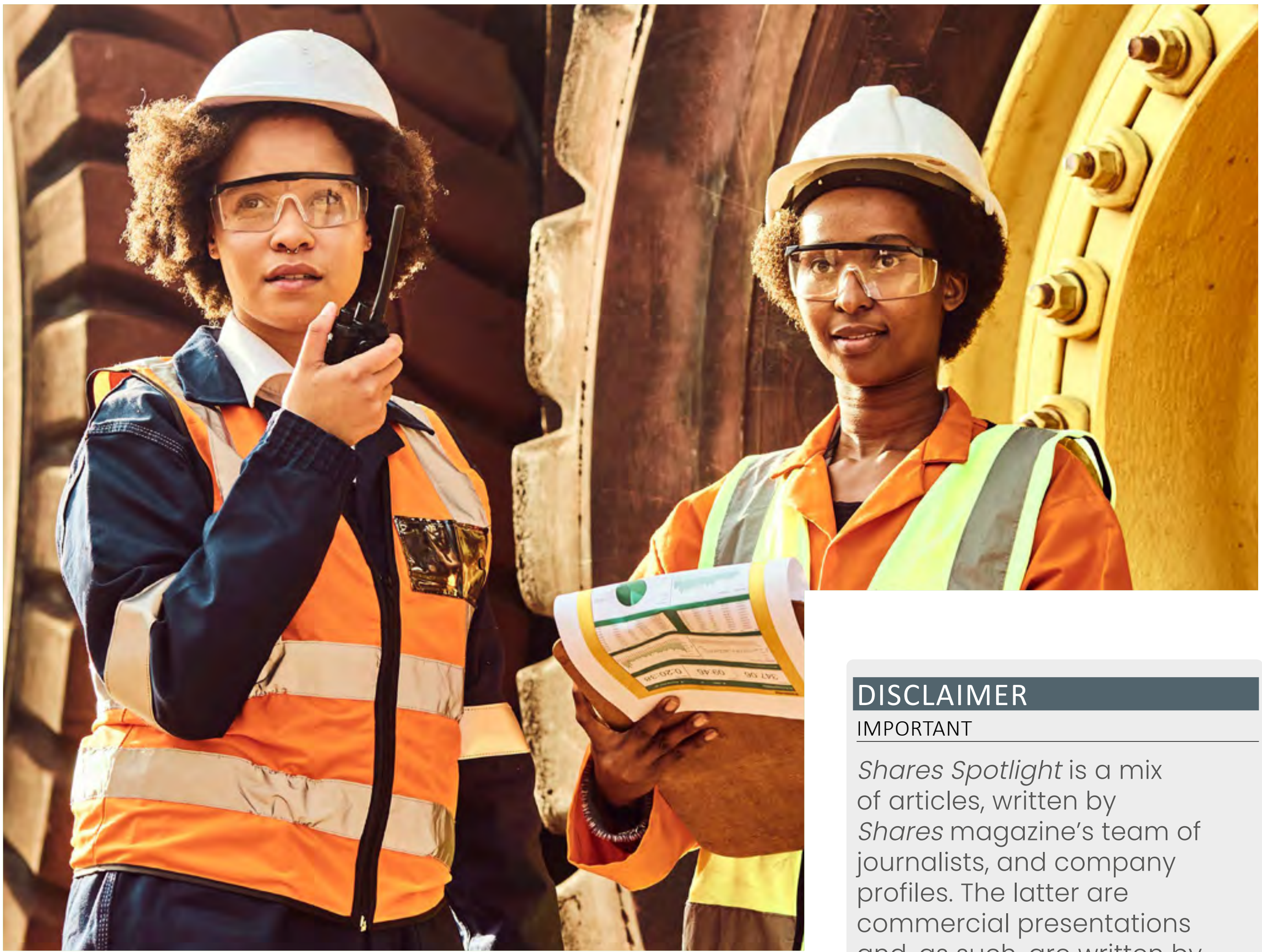

Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

This edition is dedicated to businesses powering the global economy, whether that be in mining, oil and gas, the renewables space, infrastructure or energy provision.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our webinars and in-person events where you get to hear from management first hand.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of Spotlight are available on our website.

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Why the miners in 2022 are a case of cyclical weakness versus structural strength

Leading fund manager makes the case for the sector's long-term investment credentials

It has been a tougher time for certain commodities in recent months as fears over the global economy mount. The longer-term outlook for the mining sector is still buoyant, argues Evy Hambro, co-manager of the BlackRock World Mining Trust (BRWM).

After gains since the start of the year, certain commodities have started to weaken over the summer. In particular, those commodities seen as dependent on global economic growth have seen prices fall. This includes metals such as iron ore, steel and copper.[1] However, we believe the structural arguments for mining companies are still intact.

The short-term sell-off has been prompted by fears of global recession. These fears are well-founded, with rising interest rates and inflation weighing on economic growth. The immediate sell-off was sparked by weakness in China; in particular, the Chinese property sector, and ongoing, economically damaging restrictions as the government sticks to its zero-Covid policy.

Equally, earnings in the mining sector have been hurt by rising input costs, including higher oil prices, rising wages rates, higher raw material input costs and supply chain issues. These have dented share prices in the short term and could continue to impact results in the second half of the year.

LONGER-TERM STRENGTH

However, we believe any price weakness for commodities is likely to be temporary. China is showing signs of recovery. Recent manufacturing data has shown the sector starting to grow once again.[2] It has loosened monetary policy and announced support for the property sector and on infrastructure spending.

While there are unquestionably strains elsewhere in the global economy, many commodities are subject to structural forces that are likely to support demand even if the economy weakens. The Ukraine crisis has put a greater focus on energy independence, for example, accelerating the plans of governments across the globe to increase energy supply from alternative sources. We expect the mining sector to play a critical role in the coming years in supplying materials required for lower-carbon technologies, including wind turbines, solar panels and electric vehicles.

Broader global infrastructure needs are also supporting demand for commodities. Infrastructure development is becoming a priority across the globe to promote more efficient use of resources. The US Inflation Reduction Act, passed in August, announced significant spending on green energy infrastructure, including charging infrastructure for electric cars, plus improvements in rail services and other transportation networks.[3] This shows how infrastructure is being prioritised by governments.

SUPPLY CONSTRAINTS

Demand comes at a time when supply remains limited. The management teams of mining companies continue to maintain a focus on capital discipline, having learnt their lesson on expanding supply too quickly in previous commodities cycles.[4] Equally, for a number of commodities, notably copper, we see mines ageing, creating less supply each year, so mining companies need to run simply to stay still.

It is plausible that more supply comes through over the longer term, particularly given the visibility on demand. However, it will take time for any new expenditure to feed

through into new supply, given the complexity of bringing new mining projects on stream. In the meantime, weak supply and strong demand is likely to keep prices elevated for many commodities and support the mining sector.

MINING COMPANIES

Mining companies are generally in robust financial shape today, with high levels of free cash flow. This is helping them weather cost pressures. Balance sheets for nearly all mining companies remain strong. This gives them flexibility at a difficult moment.[5]

Of course, there are risks. Mining companies often operate in difficult parts of the globe and geopolitical tensions are rising, not just with the war in Ukraine, but between China and the US. We strive not to invest in countries where there is uncertainty over the mining code and high political risk. Good governance is vital and we only invest in companies where we have faith in the management team.

There are two other reasons to consider mining in the current environment. We believe mining equities are an effective way to hedge portfolios against persistent inflationary pressures. There are relatively few sectors that can thrive in the current market environment, but mining has been an area of strength.

Also – and in spite of the relative strength of mining shares since the start of the year - shares remain, in our view, good value relative to other sectors and to their own history. This should hopefully support buybacks and future dividend payments.

While short-term concerns have held back mining shares over the past few months, the factors driving the sector are durable and will start to become increasingly important for the remainder of 2022 and beyond. The world is in transition and this is likely to support the mining sector even in the face of weaker growth.

[1] FT - Industrial metal prices melt as global recession fears flare up – 6 Sept 2022.
[2] Statista – 30 Sept 2022
[3] https://www.eesi.org/articles/view/how-the-inflation-reduction-act-and-bipartisan-infrastructure-law-work-together-to-advance-climate-action
[4] World Trade Organisation
[5] Blackrock – August 2022

www.reabold.com

Reabold Resources – a UK-listed oil & gas investment company at an inflection point

The small cap oil and gas investment sector has never been an area for the risk averse. On top of the pure geological, financial and company risk there is also operational management expertise to be considered.

Historically companies in this space could crudely be split into two camps: those with significant technical skill but limited financial knowhow or those run by financiers without deep technical knowledge. It is exciting to see a new breed of UK oil and gas company emerging – one that combines both.

Reabold Resources (RBD:AIM) is just that, a business listed on AIM run by a tight, experienced team, who marry industry literacy and geological competency with a deep understanding of equity markets and shareholder needs. It also has a growing network of strong industry relationships, which are key to farming out or selling development projects.

Reabold is a rare phenomenon in this sector and offers a team that can speak both languages – 'oil & gas' and 'equity markets' – overseen by the strong governance of an experienced board.

After decades of investing in this space for large institutions, the current management team, led by Sachin Oza and Stephen Williams, identified a significant opportunity for investors: a mispricing of assets at the appraisal and the development stages (where significant understanding is required to assess the potential for commercial production of hydrocarbons through the drilling of wells and construction of facilities thereby maximising the asset's cash flow generating potential).

Stephen Williams and Sachin Oza

Thus, Reabold Resources was created in 2017 as an investor in near term, high growth energy projects where an injection of capital progresses the asset and drives an uplift in realisable value. Today, Reabold has a portfolio with exposure to high quality UK onshore and offshore oil and gas projects with near term newsflow that has the potential to catalyse future monetisation opportunities.

A DISTINCTIVE APPROACH

This multi skilled team identifies, invests in and provides modest funding for a diverse range of low risk, high impact projects with near term catalysts to create value. Importantly they are extremely disciplined about their exit routes such as selling assets prior to full project development, in order to recycle capital into high reward projects and distribute excess cash to shareholders.

It is easy to see why companies like this have been overlooked. Reabold is small, the team has been quietly acquiring and maturing the company's asset base and there have been few headline grabbing transactions for a sector that was not in favour – until now.

This year Reabold has announced the sale to **Shell (SHEL)** of the Victory licence (through its 49.99% holding in Corallian) for £32 million of gross proceeds. It has also acquired six new licences in the North Sea and has agreed to acquire Simwell Resources, both for a modest cost. There has been plenty


West Newton B site

of M&A activity to establish a well-diversified portfolio with exposure to crucial North Sea gas projects that will contribute to the security of the UK's energy supply.

Excitingly, a Competent Person's Report (CPR) on Reabold's flagship West Newton licence (PEDL 183) near Hull was published and highlights that West Newton is potentially one of the largest ever UK onshore gas fields. After drilling 2 appraisal wells, the intention to drill the first development well in H1 2023 was announced this year. Reabold holds a 56% economic share in the PEDL 183 licence and the CPR also highlighted the significant running room provided by other nearby prospects. The drilling of the well will be funded by recycling capital from the sale of the Victory licence and Reabold will seek to monetise this investment in a similar fashion to Victory.

Looking further out, the licences Reabold has agreed to acquire as part of the Simwell Resources acquisition are particularly interesting given the adjacency to the Pensacola well being drilled by Shell in Q4 this year.

Reabold is awaiting news of this well result to determine its own drilling strategy for the P2332 licence, which could prove to be an important strategic asset for the UK's energy supply. Reabold is also looking for farm-out partners for its recently acquired North Sea licences which have low to moderate geological risk and are located near existing oil & gas infrastructure.

LOOKING FORWARD: REPLICATING THE MODEL

Reabold is at an interesting inflection point and the sale of the Victory licence demonstrates their strategy in action. Reabold made a modest investment that helped progress an asset located near existing oil & gas infrastructure, and which ultimately proved attractive to one of the largest oil & gas companies in the world, Shell. It proves that Reabold can recycle capital and become self-financing for future drilling investment. Reabold is aiming to replicate this strategy with its other assets.

It has also, for the first time, stated its intention to distribute £4 million to shareholders following the final receipts from the Victory asset sale, a clear sign of a balanced approach to capital allocation and a deep understanding of shareholder needs.

There are many businesses in this space, but this is a small, less well known company that appears to be at a significant inflection point. Reabold's distinctive approach and five years of hard work could be about to pay off.

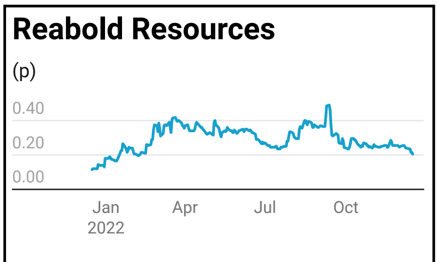


Chart: Shares magazine • Source: FE Analytics

Union Jack flies the flag for UK onshore oil and gas

The directors of **Union Jack Oil (AIM:UJO)**, a focused onshore hydrocarbon, production, development and exploration company, have vindicated the United Kingdom onshore as being an attractive target for investment in oil and gas ventures, considering the relatively low-cost operating environment and a fully transparent licensing regime.

The company has adopted a business model, typically acquiring interests in late stage projects, mitigating risk and offering exposure to wells with the scope to dramatically change the dynamics with the drill bit, Wressle and West Newton, being prime examples of this recent success in its key projects.

Union Jack holds what management consider to be high-value material project interests with significant upside potential in their axis areas of the East Midlands, Humber Basin and East Yorkshire. Their interests are believed to be able to assist in delivering material growth in the medium term and build a sustainable mid-tier UK onshore focused conventional hydrocarbon producer.

Union Jack has achieved a number of significant milestones during 2022, which include a seriously strengthened balance sheet, healthy cash generation, profitability and an upgraded reserve and resource base.

The success seen at Wressle during 2022, has financially transformed the company beyond recognition. Revenues, mainly from the Wressle development, during the period have soared from £1,900,000 in 2021, to approximately £8,000,000.

The six months ended 30 June 2022, saw profits in-excess of £2 million reported. A maiden special dividend of 0.8p per ordinary share, accompanied by a share buyback scheme, boosting earnings per share announced later in the year. Production updates from Wressle continue to be impressive and the trend continues in an upward trajectory, which is extremely positive for the future.

Cash balances are expanding on a monthly basis and the company is funded for G&A, operating expenditure and contracted or planned capital expenditure costs, including any drilling activities or work programme commitments for 2023 and into 2024. The management have high expectations that this strong performance will continue for the foreseeable future.

ASSET OVERVIEW

The company holds key interests in several licences all being located within an established hydrocarbon producing province:

- **PEDL180** and **PEDL182** Wressle development and Broughton North (40% interest);
- **PEDL183** West Newton A-1, A-2 and B-1Z hydrocarbon discoveries (16.665% interest);
- **PEDL253** Biscathorpe (45% interest);
- **PEDL005(R)** Keddington oilfield (55% interest);
- **EXL294** Fiskerton Airfield oilfield (20% interest);
- **PEDL241** North Kelsey (50% interest);
- **North Sea Piper/Claymore Complex** royalty units (2.5% interest).

ZERO CARBON POLICY

The UK is committed by law to reach net zero carbon emissions by 2050. Union Jack, by its own policy is not the operator of these projects and only work with with operators such as Egdon Resources (AIM:EDR) and Rathlin Energy, both of whom have a firm commitment to safety, environmental and social responsibility in all aspects of their operations.

Union Jack's focus is to minimise emissions and the carbon footprint generated by its hydrocarbon interests in the most efficient means possible, whilst continuing to contribute positively to the growing demand for energy and hydrocarbon projects in the supply chain.

As the demand for energy increases and the global economy recovers, hydrocarbons will play an important role in ensuring the energy security of the UK.

PEDL180/PEDL182 WRESSLE DEVELOPMENT

Located in Lincolnshire on the Western margin of the the Humber Basin, PEDL180 and PEDL182 contain the substantial Wressle conventional hydrocarbon discovery with proven reserves and material upside.

Wressle oil production has

significantly exceeded forecast expectations with zero water cut and significant flow rates being recorded.

The implementation of a two-stage gas utilisation scheme is being progressed, which will enable the oil production to be further increased. For the first stage, it is the intention to utilise the Ashover Grit gas for electricity generation and export, for which planning is already in place. This will be undertaken in two steps. Initially, the site diesel generator will be replaced with gas microturbines for site electrical power, and secondly, a separate gas engine installed to generate and export up to 1.75 MW of electricity into a local private power network.

With a clear focus on development, the monetisation of the significant Penistone Flags resource is also a priority.

PEDL183 WEST NEWTON AND FUTURE PROGRAMME

West Newton is located in East Yorkshire and within the Western sector of the Southern Zechstein Basin, containing the West Newton A-1, A-2 and B-1Z discoveries.

Throughout 2022 focus has been on data interpretation from the A and B discoveries and advancing a forward plan for development. A horizontal well focusing on gas recovery is planned for mid 2023.

Analysis completed by CoreLab demonstrated flow through many reservoir samples, supporting the view that optimised well design could deliver good hydrocarbon productivity by the drilling of horizontal wells that underpin strong

economic returns from the West Newton project.

During March 2022, the operator, Rathlin Energy, submitted a revised planning application for the development of the A site, to the East Riding of Yorkshire Council which was approved by the Planning Committee by a confidence building 10 to 1 majority.

The approved development plan includes the drilling, completion and associated production from an additional four wells.

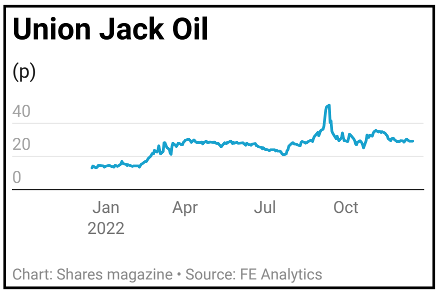
West Newton is located in an area that provides access to both significant and regional infrastructure and, with substantial additional exploration potential within the Greater West Newton licence area.

West Newton could deliver significant volumes of onshore low-carbon sales gas into the UK's currently strained energy market.

NEWS FLOW

In a well-funded position, Union Jack can look forward to a busy period of news flow in respect of its balanced portfolio during 2023 and beyond. In addition to the ongoing engineering, site upgrades and future gas monetisation at Wressle, considerable activity is expected involving the planning of and designing of key wells at West Newton, Keddington and potentially Biscathorpe.

Executive chairman of Union Jack, David Bramhill states: 'The future of Union Jack remains bright.'



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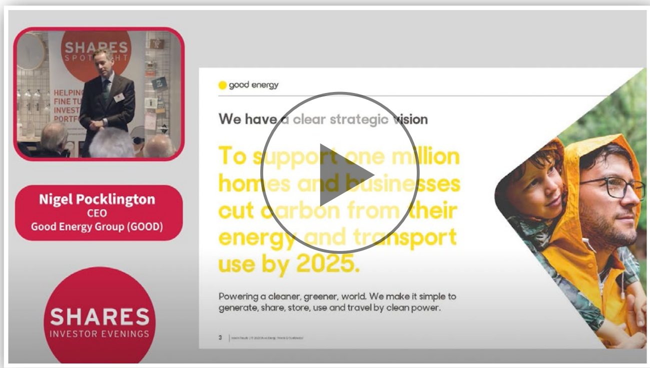

Good Energy Group (GOOD)
Nigel Pocklington, CEO

Good Energy Group is a supplier of 100% renewable power and an innovator in energy services. Since it was founded 20 years ago, the company has been at the forefront of the charge towards a cleaner, distributed energy system. Its mission is to power a cleaner, greener world and make it simple to generate, share, store, use and travel by clean power.

NextEnergy Solar Fund (NESF)
Ross Grier, Managing Director, UK, NextEnergy Capital

NextEnergy Solar Fund Limited is a specialist renewable energy investment company that invests in operating solar power plants and battery storage assets. NESF's investment objective is to provide ordinary shareholders with attractive risk-adjusted returns and is targeting a dividend yield of 7.52p for the current financial year.

Rainbow Rare Earths Ltd (RBW)
George Bennett, CEO

Rainbow Rare Earths Ltd strategy is to identify near-term, secondary rare earths production opportunities. With our strong operating experience, proven project development experience, unique intellectual property and diversified portfolio, Rainbow will develop a responsible rare earths supply chain to drive the green energy transition.

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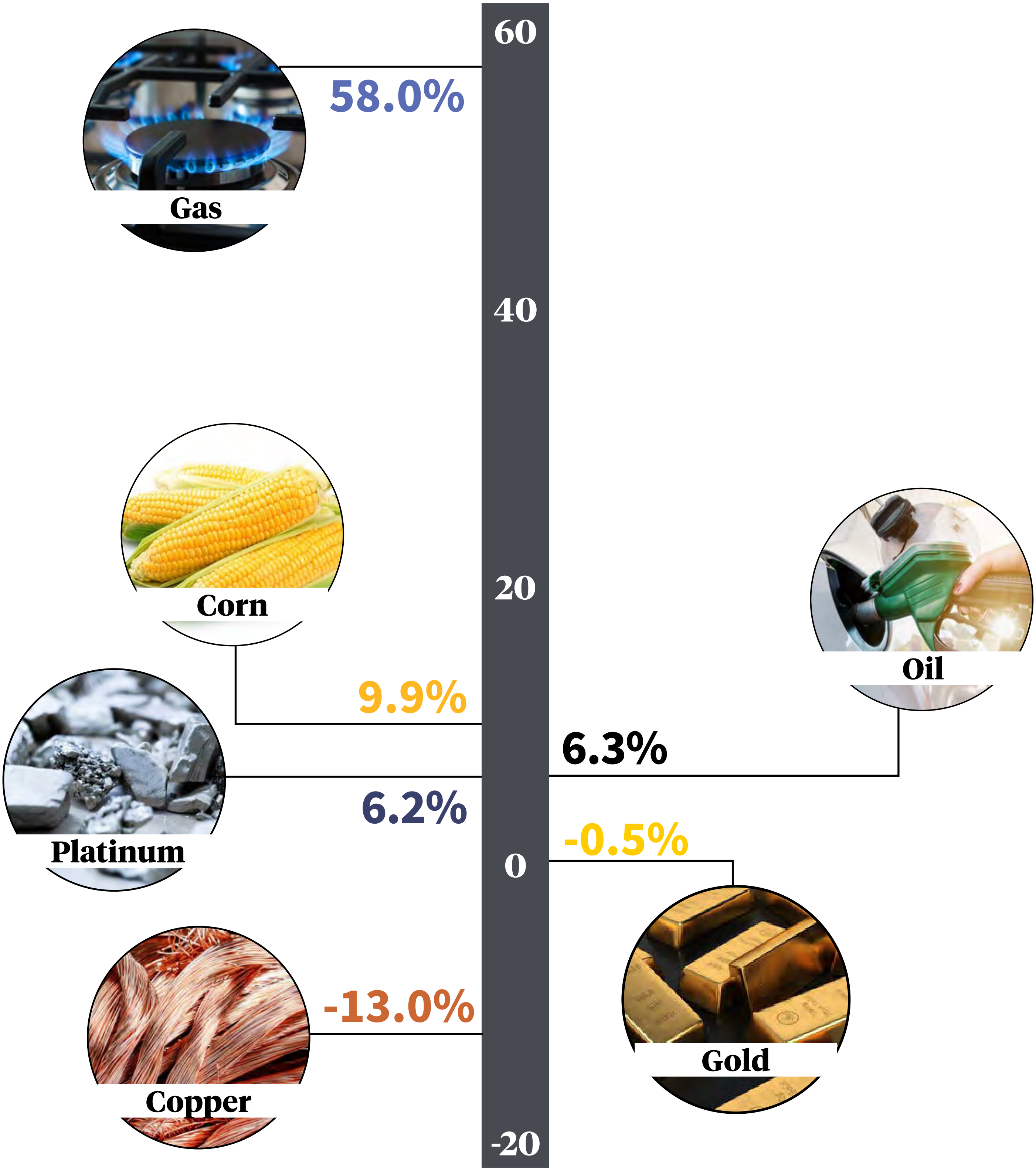
Databank – Commodity price performance 2019-2022

	2019	2020	2021	2022*
Copper	6.3%	28.5%	23.1%	-13.0%
Corn	0.1%	11.8%	22.0%	9.9%
Crude Oil	21.9%	-22.2%	42.0%	6.3%
Gold	18.7%	24.2%	-5.0%	-0.5%
Natural Gas	-26.0%	20.4%	44.0%	58.0%
Platinum	18.7%	6.9%	-12.0%	6.2%

Source: Refinitiv. *Data to 16 December 2022.

Databank – Gain / loss so far in 2022



Source: Refinitiv. Data to 16 December 2022.