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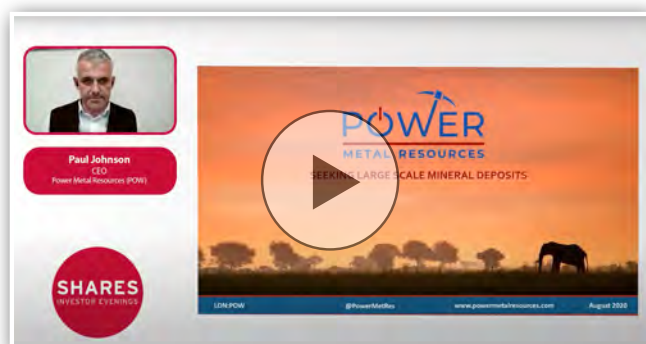
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Mark Hodgkins, Finance Director - Trackwise Designs (TWD)

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Hurray! Dividends are back on the menu again

More than £2.2 billion of payments have been declared by companies which previously paused the shareholder reward

More than £2.2 billion of dividends will now be paid by London-listed companies which previously halted payments during the pandemic. The figure relates to dividends declared since the start of July and includes six companies in the FTSE 100.

This sends a very strong message to the market that companies are regaining confidence and that the sharp drop in dividend income we saw earlier this year may turn out to only be a short-term phenomenon.

A lot of companies decided not to make dividend payments in the first half of the year, citing the need to preserve cash and bolster working capital during the early stages of the health crisis.

Some companies are now going back and not only paying the dividends that were skipped earlier this year, but also paying further dividends relating to the first half of their current year. Falling into this camp are the likes of insurer **Direct Line (DLG)**, packaging group **Mondi (MNDI)**, defence group **BAE Systems (BA.)** and shipping services provider **Clarkson (CKN)**.

While some companies are reinstating dividends previously expected by investors, this isn't a wholesale game of catch-up when it comes to the amounts paid out.

Domino's Pizza (DOM) is about to pay the previously deferred final dividend for its 2019 financial year but is sitting on its hands as to how much cash it will pay out to shareholders for the current financial year. Shareholders will have to

wait until March 2021 to find out.

Many investors are drawn to the life insurance sector for income and they will be pleased that **Aviva (AV.)** is paying dividends again, even if the payment is only a fraction of what they would have got under normal circumstances.

For most, it's a case that investors will miss out completely on final payment for 2019 financial year and the resumption of dividends only really applies to the H1 2020 payment. Stocks in this situation include construction group **Hill & Smith (HILS)**, pharmaceutical services provider **UDG Healthcare (UDG)**, pawnbroker **H&T (HAT:AIM)** and chemicals firm **Zotefoams (ZTF)**.

Investors should take some reassurance from the companies that are resuming dividends as they wouldn't be paying unless they are very confident about their prospects. It would be extremely embarrassing to have to stop dividends again and no board of directors will have taken the latest dividend decision lightly.

Resuming dividends can still come with a catch, namely the opportunity to introduce a less generous dividend policy. It certainly looks like Aviva is going to downgrade its payments in the future, judging by comments its latest results.

Lower dividends payments could benefit a company if it frees up cash that can be reinvested in the business and make it more competitive for the future. This in turn could drive capital gains for investors, potentially exceeding the returns they may have enjoyed from historical dividends.

EXAMPLES OF COMPANIES RESTORING DIVIDENDS

Admiral+A4:A30	Direct Line	Kainos	Rotork
Aviva	Domino's Pizza	Land Securities	Sabre Insurance
BAE Systems	Focusrite	Mondi	Smurfit Kappa
Bodycote	H&T	Nichols	Spectris
Clarkson	Hill & Smith	Palace Capital	UDG Healthcare
Croma Security Solutions	IMI	Persimmon	XP Power
Devro	James Halstead	Personal Group	Zotefoams

Source: AJ Bell, Shares. Refers to London-listed stocks resuming dividends since 1 July 2020. Data as of 17 Aug 2020

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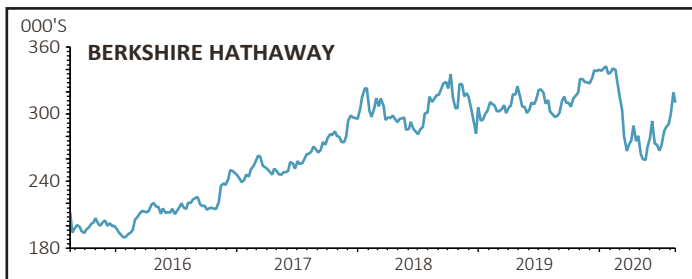


Investment
ideas

Buffett backs away from banks in latest portfolio reshuffle

Berkshire's much-watched filing reveals some surprise portfolio changes

Berkshire Hathaway, the holding company controlled by legendary investor Warren Buffett, made several interesting changes to its portfolio in the quarter to the end of June.



As well as the much-publicised dumping of airline shares, which Buffett admitted was 'a mistake' to have bought in the first place, the firm reduced its exposure to large US financial institutions such as JPMorgan Chase and Wells Fargo, selling billions of dollars-worth of stock. It also sold the final tranche of shares in Goldman Sachs which it acquired at rock-bottom prices during the global financial crisis.

According to Berkshire's latest 13F filing last week, the value of the firm's equity holdings increased from around \$176 billion dollars in March to some \$202 billion by the end of June, with the largest five holdings – American Express, Apple, Bank of America, Coca-Cola and Kraft Heinz – making up more than three quarters of the value of the portfolio.

Among the most significant disposals, the firm sold 85.6 million shares of long-term holding Wells Fargo taking its stake down to 5.8% from 7.9%. Despite initially rebounding from its March lows, the current share price of \$25 is close to its 2020 low and not that far from Berkshire's original purchase price decades ago. The bank was once a key investment for Berkshire but the firm has been steadily cutting its stake following claims of mis-selling to customers.



Berkshire also cut its stake in JPMorgan Chase by nearly two thirds or 35.5 million shares, taking its holding to just 0.7% of the bank's equity from 1.9% in March.

Stakes in Bank of New York Mellon, M&T Bank and US Bancorp were also reduced, along with holdings in payment system providers Mastercard and Visa.

Excluded from the filing was last month's purchase of another \$2 billion worth of shares in Bank of America, which took Berkshire's stake to 11.9%, but on a net basis it has still reduced its exposure to financial stocks significantly.

The most unexpected new investment was a \$560 million stake in the world's second-largest gold producer Barrick, news of which sent the miner's shares soaring 11% on Monday.

Despite Buffett having criticised gold investors for years for 'jumping on the bandwagon' when prices were rising, and having constantly extolled the virtues of owning real businesses over the 'barbarous relic' as it is known, Berkshire's managers appear to be hedging their bets, albeit in a small way as the holding in Barrick accounts for just 0.3% of the portfolio.

Travel stocks hammered on quarantine chaos

Forecast earnings have been cut as airlines and tour operators miss out on crucial summer trading

Travel stocks continue to take a hammering as a rising number of destinations come under the threat of facing quarantine measures from the UK Government.

Following on from popular holiday destinations France and Malta being suddenly removed from the UK's travel corridor list last week, reports suggest Greece, Croatia and Turkey could be removed as well. The mandatory 14-day isolation for arrivals from Spain is also still in place.

For airlines and package holiday companies, the news couldn't come at a worse time. Summer is the crucial trading period for these businesses as they look to recoup the losses made in the quieter winter months.

The most heavily affected in share price terms are tour operators **TUI (TUI)** and Jet2 owner **Dart Group (DTG)**, plunging 15.4% and 16.4% respectively since France was added to the quarantine list.

Budget airline **EasyJet (EZJ)** has also been hit hard, with its shares falling 12.9% over the same period. The company also announced it is closing its bases at London Stansted, London Southend and Newcastle airports, in a move which will also have ramifications for London Southend Airport owner **Stobart (STOB)**.

Wizz Air (WIZZ), which operates routes mainly to



central and Eastern Europe, has been least affected by the quarantine measures. Its shares are actually up 1% in the wake of the new measures.

Also not helping TUI, an Anglo-German company, is the decision by Germany to add Spain to its quarantine list. Albeit referring to potential Brexit risks, TUI said in its 2019 annual report, 'If we were unable to continue to fly intra-EU routes, such as from Germany to Spain, this would have a significant financial and operational impact on the group.'

Spain is a key market for both TUI and Dart Group, accounting for around 30% of the former's overall revenue and 50% of the latter's.

While the full impact and scale of quarantine measures has yet to become clear, they are having an impact on earnings forecasts. The latest consensus forecasts compiled by Refinitiv now show airline earnings taking a bigger hit than was expected three months ago.

A 2022 rebound is still expected for all the airlines, but the hit to 2021 estimates has significantly increased.

Given its more central and eastern European focus, Wizz Air is predicted to hold up best.

Forecast downgrades for airlines

Company				
Ryanair	Mar '21 EBIT loss forecast (May 2020)	-€212 million	Mar '21 EBIT loss forecast (August 2020)	-€755 million
EasyJet	Sep '21 EBIT forecast (May 2020)	€228 million	Sep '21 EBIT forecast (August 2020)	€198 million
International Consolidated Airlines	Dec '20 EBIT loss forecast (May 2020)	-€1.3 billion	Dec '20 EBIT loss forecast (August 2020)	-€3.3 billion
	Dec '21 EBIT forecast (May 2020)	€2.5 billion	Dec '21 EBIT forecast (August 2020)	€808 million
Wizz Air	Mar '21 EBIT forecast (May 2020)	€74 million	Mar '21 EBIT loss forecast (August 2020)	-€65 million

Source: Refinitiv. EBIT = earnings before interest and tax

Mining proves no safe haven as BHP cuts dividend

Sector less reliable for income as BHP joins Glencore and Anglo American in scaling back its payout

After cutting its annual shareholder payout mining giant **BHP (BHP)** has offered another indication there are unlikely to be dividend 'safe havens' for income investors in the mining sector.

The company declared a final dividend of 55 cents per share, taking its total dividend for the year to 30 June 2020 to \$1.20 per share, equating to a 5% yield, down 10% from \$1.30 per share a year ago. The company also paid a special dividend in 2019.

An investor with £10,000 worth of BHP shares will have received around £50 less in ordinary dividends this year compared to last year. Consensus dividend forecasts for the June 2021 financial year imply a further reduction to \$1.14 per share.

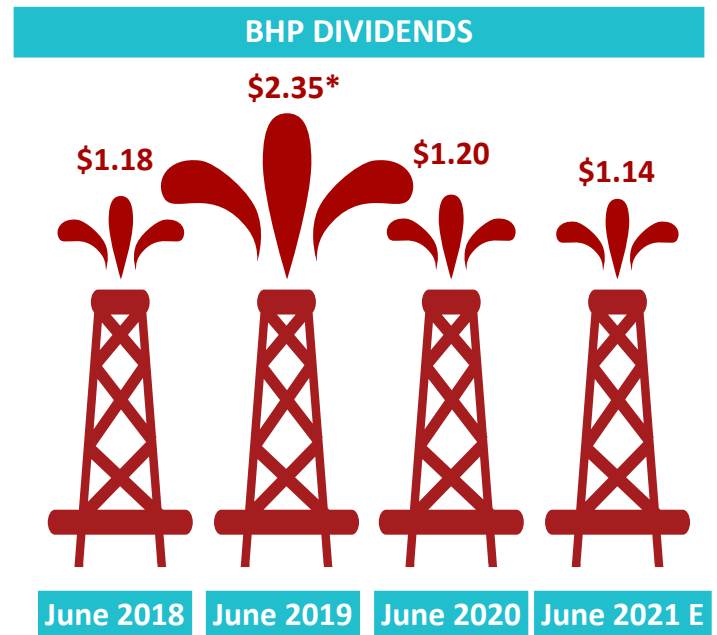
Link Group, authors of the UK Dividend Monitor, called the cut 'unalloyed bad news' for shareholders but pointed out with dividend cover already low last year at 1.2 times, a cut was hard to avoid. Dividend cover above two times is generally considered to provide a measure of safety.

The cut was something of a surprise given BHP's net debt came in at \$12 billion, right at the bottom of its target range of \$12-17 billion, though Link points out that trimming this year's shareholder payout is set to save BHP around £800 million in 2020 alone.

Shore Capital analyst Yuen Low says the lower 'if still quite decent' dividend is 'disappointing', but puts it in the context of last year's 'wonderful' and 'very generous' payout.

Among the other FTSE 100 miners, only **Rio Tinto (RIO)** has maintained or increased its dividend, increasing its interim payout by 3% as China's economic recovery boosted demand in its iron ore division.

Swiss miner **Glencore (GLEN)** scrapped its dividend entirely after taking a big hit on the value of its coal assets, while BHP has joined **Anglo**



Source: Refinitiv. *Includes special dividend

American (AAL) in cutting its payout, with the latter halving its interim dividend as demand in the diamond sector during the coronavirus pandemic has collapsed to virtually nothing.

It comes as BHP reported lower annual revenue and profit as a result of lower commodity prices – particularly coal, copper and petroleum – during the period and mine closures as a result of the pandemic.

Pre-tax profit for the 12 months to 30 June dropped 10% to \$13.51 billion, with revenue declining 4.3% to \$42.39 billion and missing company-compiled expectations of \$43.07 billion.

Under pressure from investors, BHP also announced it has committed to exiting thermal coal production within two years, looking to sell its thermal coalmines as it transitions to commodities for a low carbon future.

The move will satisfy investment criteria laid down by Norway's Government Pension Fund Global, which owns around 3.8% of BHP's London-listed shares.

Tesla to split stock in five-for-one deal

Change will not alter company's valuation but may make it more accessible for some investors

Nasdaq-listed **Tesla** has announced plans for a five-for-one stock split after firm's stunning run through 2020.

Investors lapped up the news sending shares in the electric car star roaring higher, adding close to \$500 since the announcement and beyond \$1,800 levels. Tesla stock ended 2019 at \$418.33, yet now change hands for \$1,835.64, based on the market close on 17 August.

This will be the first time Tesla has split its stock, which will effectively give investors five-times more shares that are valued at a fifth of the original price.

The decision is seen by some market watchers as a reward to its army of loyal retail investors who have supported the company through years of hype, hope, significant losses, and substantial scepticism.

Sceptics will see the stock split as little more than a marketing exercise designed to pump up an already inflated valuation. But while the change in the share count and valuation should make no difference to most investors, since it will not change the ultimate value of the business, it may make it easier for some retail investors to access the stock directly.



For example, if an ordinary investor is putting, say, £300 a month into equity investments via their ISA or SIPP, it would take them roughly five months to save enough to buy a single Tesla share, at current levels. Following the stock split, that same ordinary investor would be able to afford to buy one Tesla share per month.

This change, in theory, should allow a greater number of retail investors with limited resources to put their money into Tesla.

The Elon Musk-run firm was already the world's most valuable car maker ahead of the latest spurt higher, worth as much as Toyota, Ford, General Motors and Fiat Chrysler put together despite selling only a fraction of cars compared to its long-established peers.

Yet Tesla remains the dominant force in the US and elsewhere for electric vehicles. Latest data from Clean Technica showed that Tesla's Model 3 was the best-selling electric vehicle in the US during the first six months of 2020, with just over 38,000 Model 3 vehicles sold. That's five-times as many units as the Chevy Bolt and 152-times as many as the BMW i3, according to the research.

The stock split will come into effect for investors on the Tesla register on 21 August, with trading in the new shares set to start from 31 August.



TESLA STOCK – OLD FOR NEW

10 'old' Tesla shares @ \$1,835
= **\$18,350 total stake**

50 'new' Tesla shares @ \$367
= **\$18,350 total stake**

Food comes to the rescue for Marks & Spencer ahead of Ocado test

Sales slump, savage job cuts revealed and much hinges on online groceries venture

An unscheduled trading update (18 Aug) confirming weak clothing sales and containing plans to eliminate up to 7,000 jobs in the next three months sent shares in **Marks & Spencer (MKS)** lower.

This comes with the business on the cusp of a major test as it gears up for its new supply deal with **Ocado (OCDO)**, which starts in September 2020.



A strong start to the venture would fuel optimism it can catch up with rival online food sellers, although failure would heap further pressure on the already-battered share price.

The retailer's successful food business helped prop trading up again, although the perennially underperforming clothing and home operations have struggled in the face of headwinds including social distancing and the collapse in demand for office attire and formal wear.

For the 13 weeks to 8 August, embattled Marks & Spencer reported a 13.2% drop in group sales, with a 2.5% rise in food sales offset by a 38.5% drop in clothing and home sales and a 24.6% slump in international sales, though the company insisted trading was actually ahead of the scenario outlined at the year-end in terms of revenue and cash.

Unsurprisingly, clothing and home sales were weak due to store closures, but in the eight weeks since reopening the improvement has been modest

with the 47.9% drop in in-store sales partially offset by a 39.2% increase in online revenues.



FOOD, GLORIOUS FOOD

Yet again, the food business proved the saving grace for Steve Rowe-steered Marks & Spencer, with sales building steadily as customers adapted to more in-home eating and online ordering. In-store sales also improved as more locations opened during the quarter.

Shore Capital is 'encouraged to see the reports of the Ocado Retail switch from Waitrose & Partners to M&S being on-track for the September launch, a shift where momentum and news flow has been heightened this week with messaging around the stronger core offer price proposition. Taking M&S Food online is a demonstrably good news story to us, noting ongoing synergies to emerge.'

Marks & Spencer joined other major retailers in announcing swingeing job cuts, which is terrible news for the affected employees. The retailer is beginning a consultation process to cut around 7,000 jobs across its stores, the central support centre and in regional management.

Most of the job losses are expected to be voluntary and through early retirement, while new roles will be created to support the online business and its new food warehouse.

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XP Power is worth paying up for

Electronics engineering gem a stock to tuck away for the medium-to-longer-term

We believe that **XP Power (XPP)** is an electronics engineering gem. The shares may be close to all-time highs but we see long-run, well managed upside more than capable of outperforming current single-digit earnings growth expectations.

For those unfamiliar with the investment story, XP Power is a science-based engineer of complex power equipment solutions. Many power systems require custom output voltage combinations, unique control or status signals and specific mechanical packaging for optimal performance and integration.

This is kit designed for when off-the-shelf solutions simply won't do, such as AC-DC (alternating current – direct current) power supplies, DC-DC converters, high voltage power



XP POWER



(XPP) £45.75

Market cap: £929 million

and radio frequency power capability. Target markets include defence, aerospace, healthcare, rail and a few other custom power niches. Semiconductors have been particularly strong area of business in recent months.

This is where XP's engineering stands out. It spends a lot on research and development (R&D), about 12% of revenue a year on average since 2002, giving it in-house designed intellectual property that few peers can match. That makes customers and revenues relatively sticky and resilient for an equipment manufacturer.

But there remains a huge, still untapped opportunity. Analysts estimate that last year's rough £200 million revenue still gave it barely a 6% global market share, while the company has cleverly used select acquisitions to open its markets even wider.

Roughly £60 million has been put towards M&A since 2015, most notably in 2018 with the £31.8 million purchase of Glassman High Voltage. This expanded XP's product range into specialised high voltage and high powered product markets.

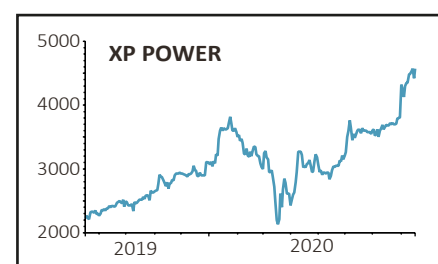
XP's operating track record

is outstanding. Order intake typically runs ahead of revenues, which tells investors that future demand is growing faster than work currently on its plate. Return on capital employed is modelled for 2020 at 20%-plus.

2020 has been a bit more bumpy than most years – for obvious reasons – but the firm's product, client and industry diversification has helped the firm navigate pandemic challenges very well.

Sensibly using cheap borrowings rather than issuing shares that might dilute investors, about £40 million is predicted at the end of 2020, implying very comfortable net debt to earnings before interest, tax, depreciation and amortisation of about 0.8 times, miles below the three times or so when lenders tend to get nervous.

A 2021 price to earnings multiple of around 24.7 should drop sharply to less than 21 the following year, while XP's quarterly-paid dividends will recover next year to past levels for a 2.1%-odd yield, decent for a company with a clear growth path.



Anexo primed for further profitable growth

Credit hire and legal services business is an AIM star in the making



Since listing in 2018, credit hire and legal services firm **Anexo (ANX:AIM)** has been one of AIM's success stories, raising guidance five times and this year moving to net cash generation.

The firm's core Edge business provides replacement credit hire vehicles – both two-wheeled and four-wheeled – to non-fault motorists while their own vehicles were repaired. It also has a legal services division which recovers repair charges and the claimant's credit hire costs from the at-fault motorist's insurers.

While lockdown led to lower traffic volumes and therefore lower claims, many of Anexo's customers are essential workers and although revenue fell dramatically in April they have recovered equally quickly in the last two months and the number of hire vehicles on the road is now above the firm's own forecast.

ANEXO

(ANX:AIM) 132p

Market cap: **£153 million**

Meanwhile, due to a significant reduction in working capital needs during lockdown, net operating cash inflow more than doubled in the first half of the year allowing the firm to continue paying a dividend and reinstate its full year earnings guidance.

Also, thanks to a strong increase in cash collection from insurers, the firm reached its target of net cash generation throughout the first half, fulfilling the promise it made at its initial listing.

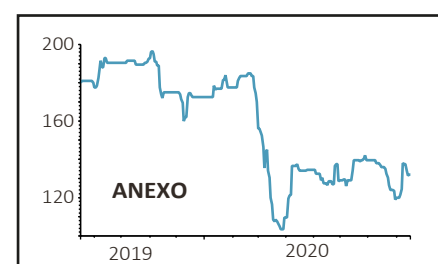
This means it can step up its investment both in Bond Turner, its rapidly-expanding legal business, and in specific litigation cases. The number of senior fee earners has risen from 106 a year

ago to 137 at the end of June and the opening of the new office Leeds later this year will allow for further growth.

At the same time, the firm has acquired a class action case against German car manufacturer Volkswagen in relation to the issue of vehicle emissions. The number of claimants stands at 10,700 as Edge customers with VW cars have also been signed up, at zero cost.

Earlier this month the UK High Court refused VW leave to appeal against a judgement of liability, and although no liability is established until the trial takes place after March 2022 the firm believes the amount Bond Turner could receive as a proportion of damages and legal costs – although small relative to VW's total costs – could be transformative for the business.

Analyst Andrew Simms at Arden has a 315p price target and believes 'growth opportunities through market share gains, increasing services and further investment highlight a group extremely well placed over the next 12 months'.



KAINOS

(KNOS) £11.29

Gain to date: 57.2%

Original entry point:

Buy at 718p, 19 December 2019



THE POSITIVE news continues to flow around **Kainos (KNOS)**, the digital transition consultancy that is one of *Shares* top picks for 2020.

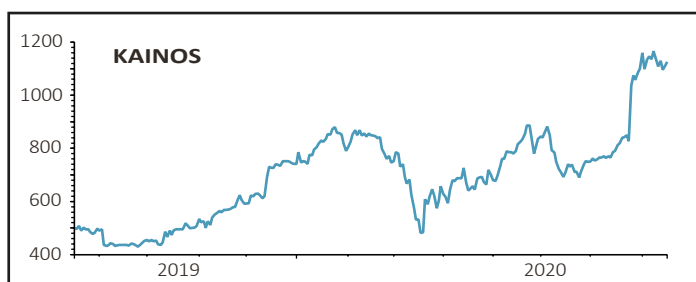


This week analysts at broker Canaccord Genuity increased their target price for the stock by nearly 40%, from 860p to £12. In a note to clients, Kai Korschelt and Steve Robertson kick-started what they see as the beginnings of a cycle of likely forecast upgrades for the company.

'Following Kainos' recent upbeat trading statement we raise our sales forecasts by up to 3% and adjusted earnings per share (EPS) by up to 35%', the analysts wrote. This reflected 'strong demand for digital transformation services and lower costs' on the back of the Covid-19 pandemic and expanding margins this year as a result.

On 27 July Kainos declared a 6.7p per share special dividend and told investors to expect results for the year to 31 March 2021 to put previous forecasts to the sword. 'We expect revenue to be well ahead and adjusted profit to be substantially ahead of current consensus forecasts for the full year ending 31 March 2021,' the company told investors.

That news saw the share price roar 25% higher on the day, a run that has continued since, for a 57% gain so far this year.



SHARES SAYS: ↗

Kainos remains an outstanding, if expensive stock worth owning for the longer term.

DIVERSIFIED GAS & OIL

(DGOC) 112.4p

Gain to date: 10.2%

Original entry point:

Buy at 102p, 21 May 2020

SUPPORTED BY a recovery in oil prices and robust operating performance, our faith in **Diversified Gas & Oil (DGOC)** is gradually being rewarded.



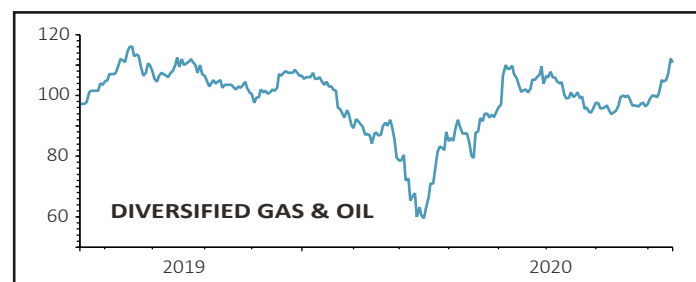
A notable feature of the recent first-half results (10 Aug) was the continuing commitment to a generous dividend.

The company's interests in low-cost US natural gas production enables the business to generate plenty of cash.

Adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA) rose 11% year-on-year to \$146 million. Average first-half net production was 95,100 barrels of oil equivalent per day, up 26% year-on-year.

The company declared an interim dividend of 3.75 cents per share, up 7%, backed up by the 'strength and durability' of its cash flows.

Based on consensus forecast data from Refinitiv the shares trade on a 2021 dividend yield of 10.1%. The company's strong balance sheet position, with chief executive Rusty Hutson flagging total liquidity of \$220 million, should also enable it to take advantage of any opportunities created in the current challenging environment.



SHARES SAYS: ↗

The company has demonstrated its ability to buy assets at attractive prices to grow its production and to manage these assets efficiently. These qualities underpin a very generous stream of income.

UDG HEALTHCARE

(UDG) 721.2p

Gain to date: 3.9%

Original entry point:

Buy at 694p, 16 July 2020

OUR BULLISH stance on healthcare support services firm **UDG Healthcare (UDG)** is off to a decent start.

On 5 August the company reinstated its dividend and resumed earnings guidance as visibility on trading improved. The company declared an unchanged first-half dividend for the six months through March of 4.46 cents per share.

A decision to pay a final dividend for the financial year which ends on 30 September remains under review.

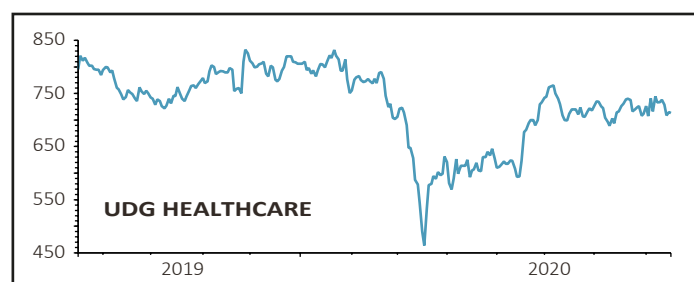
UDG says it expects to post adjusted diluted earnings per share for the year of between 43 cents and 45 cents.

Pre-tax profit on a constant currency basis for

the first nine months of the year is expected to be ahead of the prior year.

UDG has two divisions: Ashfield provides advisory, communications and commercialisation services while Sharp is a leader in contract clinical trials, manufacturing and packaging.

Numis analyst Paul Cuddon says: 'On the one hand, Sharp has benefited from increased outsourcing as a consequence of in-house staffing/packaging constraints, whilst Ashfield has been impacted by the disruption to healthcare services in the US and Europe.'



SHARES SAYS: ↗

An encouraging start, still a buy.

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SHINING A LIGHT ON EUROPE

The continent offers quality stocks at attractive valuations



By Ian Conway Senior Reporter

There are some great stocks across the Atlantic but you pay an increasingly high price for them. In this article we will explain why investors on the hunt for growth could look closer to home, casting their gaze across the Channel to Europe.

LITTLE MARGIN FOR ERROR

UK retail investors seeking 'quality growth' stocks outside these shores have been avid buyers of US stocks for several years, and even the unexpected rise in volatility which accompanied the collapse in share prices in February and March doesn't seem to have dampened their enthusiasm.

As well as direct holdings in stocks such as Amazon.com, Apple, Microsoft and Tesla, UK investors have continued to pour money into US-oriented funds and global funds with large a US

exposure such as **Fundsmith Equity (B41YBW7)** and **Scottish Mortgage Investment Trust (SMT)** during the first half of this year.

However, with the Nasdaq Composite technology index trading at record highs, and the S&P 500 Composite index a hair's breadth from its all-time highs after its longest winning streak this year, markets look fully valued to put it mildly.

Add in weak consumer confidence due to the administration's handling of the coronavirus pandemic, a steep drop in company earnings, and uncertainty over the outcome of the US elections in just a few months' time – where a Biden victory could signal a rise in corporate taxation – and the risks associated with US stocks have unquestionably risen.

While companies like Apple and Amazon are high quality and have great long-term growth prospects, their valuations are stretched to the point where there is little room for error.

Valuations have been driven up by an excess of cheap money as the government tries to reflate the economy and a lack of returns in

the bond market, where rather than ‘risk-free return’ many bonds trade at negative yields and could more accurately be described as offering ‘return-free risk’.

GROWTH STOCKS

‘There is a perception that the US stands for quality growth stocks while Europe stands for cheap cyclicals’ says Sam Cosh, manager of the **BMO European Assets Trust (EAT)**. ‘While that may be true in terms of the index make-up due to the heavy weighting of energy and financial stocks, once you delve deeper there is a wealth of growth companies.’

At the same time Europe doesn’t suffer from the ‘concentration risk’ which continues to characterise the US market. Just 10 stocks were responsible for more than 20% of the 50% rebound from the March lows in the US, and Apple now has the highest individual weighting in the S&P 500 of any stock in history.



CONTRIBUTION OF TOP 10 US STOCKS SINCE 23 MARCH

Company	Sector	Contribution
Apple	Technology	6.6%
Amazon.com	Consumer	3.2%
Microsoft	Technology	3.0%
Tesla	Consumer	1.8%
Facebook	Business Services	1.7%
Paypal	Technology	1.1%
Nvidia	Technology	1.0%
Alphabet C	Business Services	0.7%
Alphabet A	Business Services	0.7%
Home Depot	Consumer	0.7%
Total		20.3%

Source: Refinitiv, Shares

While it doesn’t have the same weighting as in the US, Europe does have a well-developed technology sector with world-class hardware companies such as semiconductor equipment maker ASML, chipmakers Infineon and STMicroelectronics, and software and IT



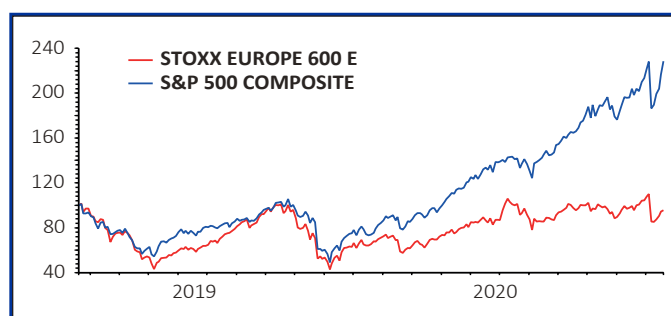
services firms such as SAP – profiled elsewhere in this week’s magazine – Capgemini and Dassault Systemes.

It’s also home to world-class health care companies such as Bayer, Novartis, Novo Nordisk, Roche and Sanofi, and for those who want ESG exposure there are dozens of high-quality stocks to choose from, many based in Scandinavia, for example wind power operator Orsted, recycling equipment maker Tomra and wind turbine maker Vestas, where environmental issues are very much ‘front of mind’ for consumers and investors.

ATTRACTIVE VALUATIONS

Moreover, growth often comes at a reasonable price in Europe as individual markets tend to be less ‘efficient’ than the homogenised US market and can throw up more bargains.

As AJ Bell’s investment director Russ Mould pointed out a couple of months ago, in sterling terms European stock markets have not just lagged the US market but also Japan and most emerging markets since the euro was introduced in 1999.



‘This poor performance may reflect the lingering effects of the debt crisis that first boiled over a decade ago, as well as the difficulties of providing a solid financial platform with which to support political union, in the absence of fiscal and banking union to support a single currency and unified monetary policy’ says Mould.



ROAD TO RECOVERY

Investors in Germany, Europe's biggest economy, are upbeat on the outlook for the next 12 months. The latest ZEW economic sentiment survey showed a sharp increase with the 'future expectations' reading coming in well above consensus forecasts.

After the Germany economy shrank by 10.1% in the second quarter, the steepest decline on record – although still only half the fall registered by the UK – the latest reading suggests investors see a relatively quick recovery.

'Hopes for a speedy economic recovery have continued to grow,' commented ZEW president Professor Achim Wambach. 'According to the assessments of the individual sectors, experts expect to see a general recovery, especially in the domestic sectors.' However, investors remain cautious on the outlook for the banking and insurance sectors due to their poor earnings expectations.

Expectations have been helped by the government's latest €130 billion stimulus package to relaunch the economy. Help includes a reduction in value added tax, support for families and financial aid for local authorities. Germany has already launched €1 trillion of financial support for small and large businesses.

The latest package has a 'green' angle too, with increased financial incentives for electric and hybrid vehicles and greater investment in environmental businesses such as renewable energy storage.

GROUNDBREAKING DEAL

Germany isn't alone in using government money to try to rescue its economy. Last month, after days of intense haggling, the European Union inked a landmark €750 billion stimulus package – officially known as the Recovery Fund – which includes unprecedented steps to help its less wealthy members such as issuing debt collectively rather than individually and making over half of the money available as grants which don't have to be repaid rather than loans.

Admittedly the amount of money involved is minor compared with what national governments themselves are doing, but the deal sent a strong and much-needed message of solidarity given the differing needs and aims of the 27 member states and serious concerns on the part of the so-called 'Frugal Four' wealthier nations – Austria, Denmark, Germany and the Netherlands – as well as more moderate members such as Finland over being held liable for the debts of some of the weaker countries.

German chancellor Angela Merkel, who led the discussions with president Macron of France, said 'Exceptional situations require exceptional measures. Europe has shown it is able to break new ground in a special situation. A very special construct of 27 countries of different backgrounds is actually able to act together, and it has proven it.'

Countries such as France, Italy and Spain – the EU's second, third and fourth largest economies respectively – could see their economies contract

by up to 10% this year, while smaller countries such as Greece – which has barely recovered from its debt crisis during the global financial meltdown of the mid-2000s – simply don't have the financial resources to fight the Covid-induced slump making them dependent on EU aid.

The fact that the EU was able to pull off a deal, some rancour aside, has given the single currency a major boost against the dollar and sterling which is a crucial first step in attracting investors from outside the euro-zone. During July alone the euro gained more than 4% against the dollar.

Moreover, as **BlackRock Greater Europe Trust (BRGE)** co-manager Stefan Gries points out, the Recovery Fund 'can potentially bring greater fiscal coordination, bring in yield spreads for southern economies and bring down the overall risk premium for European equities'.

GREEN PROMISE

With the US locked in its 'cold war' trade confrontation with China, European policymakers

can see an opportunity to seize the initiative in innovation and technology to deal with climate change and other environmental issues.

The EU has committed €550 billion to climate protection and clean energy technologies over the next seven years, in order to build leading-edge solutions and reduce the zone's reliance on overseas suppliers.

The timing is also opportune as European consumers have developed a greater awareness of their behaviour during lockdown and have already begun to act more responsibly and sustainably.

According to consultants McKinsey, in a survey of British and German consumers during April more than half said they had 'significantly' changed their lifestyles to benefit the environment with more than 60% making an effort to recycle more and actively seek out products with eco-friendly packaging.

Like other habits picked up during lockdown – online shopping being the most obvious example – this behaviour is likely to stick.



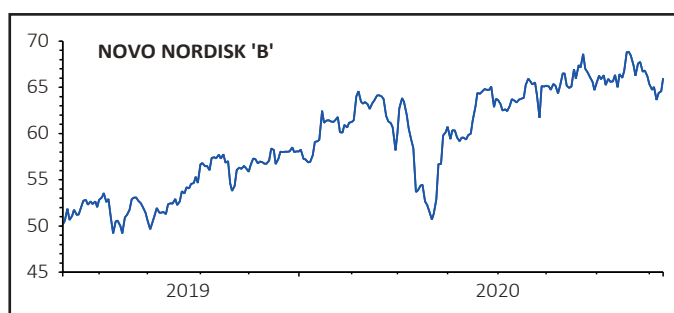
EUROPEAN STOCKS TO BUY



Below we present three large-cap ideas, two of which fit the quality growth profile so beloved of investors and one which is more speculative but we believe is undergoing a transformation that could lead to a significant re-rating.

NOVO NORDISK DKK 417.7

Market cap: **DKK 995 billion**
2020 Sales forecast: **DKK 127 billion**
Performance year to date: **+10.5%**



Novo Nordisk is the world leader in diabetes treatments with a market share of almost 30%, meaning it is well placed to meet the needs of an ageing population as well as the alarming spread of the disease not just in developed markets but also in countries like China.

Unlike rival pharma giants such as **AstraZeneca (AZN)** and French firm Sanofi, its big European rival in diabetes treatments, Novo uses its high returns to fund its own research and development rather than spending big money buying other firms.

Also, unlike most big pharma firms, Novo has focussed on its core businesses of diabetes since it was founded in 1923, continually honing and improving its treatments.

Despite fears of regulators imposing price cuts, especially in the US, the world's biggest market for its drugs, Novo has been able to increase prices fairly steadily over the past few years. Also, it has used its research to develop anti-obesity drugs since diabetes is more prevalent in people who are overweight.

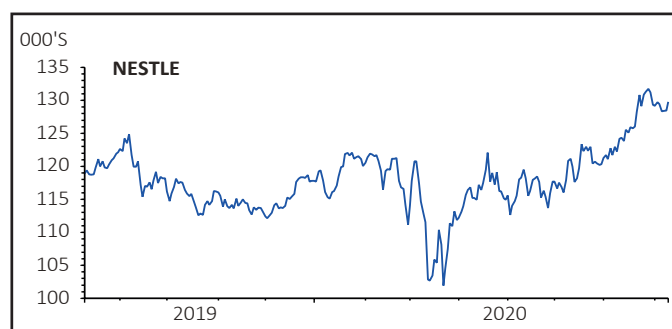
Novo Nordisk is the world leader in diabetes with a 30% market share

For Jamie Ross, manager of **Henderson EuroTrust (HNE)**, Novo is a top five holding due to its potential to be a market leader in the area of weight-loss as well as its current role as number one in diabetes. 'Anti-obesity drug sales are growing at 25-30% annually in the US as healthcare insurers realise that treating obesity reduces the odds of patients developing related diseases, so treating people for weight loss makes economic sense,' Ross says. 'We think Novo's treatment could become a blockbuster in its own right.'

Novo is also a top 10 position in the **Fundsmith Equity Fund (B41YBW7)**, which owns 0.98% of the company. Considering Fundsmith's stringent approach – to only buy high quality businesses that can sustain high returns on operating capital employed, that can reinvest their cash flows at high rates of return with a high degree of certainty, that are resilient to change and that have advantages that are hard to copy – and the limited number of stocks it holds, this is another endorsement.

NESTLE CHF 109.24

Market cap: **CHF 304 billion**
2020 Sales forecast: **CHF 85 billion**
Performance year to date: **+4%**



Nestle hardly needs an introduction as it is one of world's best-known consumer companies, but it's probably still worth running through its main product categories.

Its biggest business is beverages, where it owns the Nescafe and Nespresso brands and which makes up 25% of sales. Then comes nutrition, which makes up 16% of sales, petcare (the Purina and Felix brands) which is 15% of sales, dairy products and ice cream at 14% of sales, prepared dishes (Buitoni pasta and Maggi noodles) at 13%, confectionary at 9% and lastly bottled water at 8% of sales.

The appointment of chief executive Ulf Mark Schneider in 2017, and a new focus on growth and margins, marked a major change for the firm and for investors. Schneider cut back investment on non-core ranges or sold them altogether and concentrated the firm's efforts on its key brands to keep them competitive and attractive to consumers.

He also spearheaded a push towards 'fast innovation', developing and rolling out new products – premium coffees and plant-based food and drink ranges for example – at a much quicker pace than in the past and ahead of its rivals.

Coming into 2020 top line growth was strong with accelerating organic growth driven by the US and by PetCare sales. Cash flow was strong while underlying earnings and returns to shareholders hit record levels.

Growth inevitably slowed in the first half, but sales were ahead of forecasts thanks to robust demand in developed markets, and management – who are highly respected by investors – are forecasting organic sales of 2% to 3% for the full year.

Sam Morse, manager of the **Fidelity European Values (FEV)** investment trust, believes Nestle has 'good growth prospects given a significant proportion of its business is in categories with both strong growth and high emotional engagement and where there is scope for premiumisation and pricing power arising from sales into more fragmented channels'.

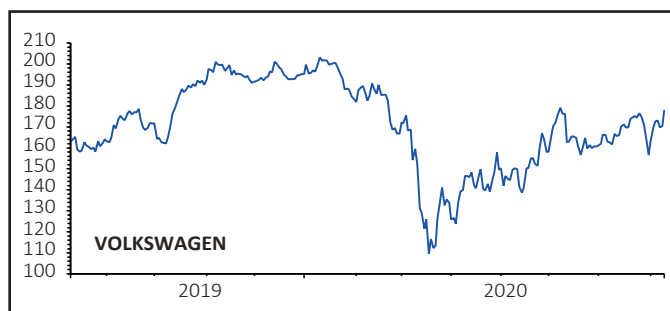
Morse adds: 'There are also material opportunities to improve operational efficiencies, and organizational changes should drive faster and more relevant innovation, which should allow Nestle to see the benefits of its portfolio's strong strategic positioning.'

VOLKSWAGEN €139.06

Market cap: **€74 billion**

2020 Sales forecast: **€215 billion**

Performance year to date: **-20%**



Like Nestle, Volkswagen barely needs an introduction, but unlike the premium consumer products firm it is a value/recovery story rather than a growth story.

After its well-documented role in 'dieselgate' exhaust emissions scandal – which the firm has provisioned extensively for – VW has gone back to the drawing board and aims to generate close to half of its sales from electric vehicles within 10 years.

On top of the billions it has already spent developing the e-Golf, e-Up and the yet-to-be-released ID.3 full electric car, it is spending €60bn over the next four years on 75 new models using electric and hybrid technologies as well as spending on 'digitising' vehicles, betting on its scale as the world's second-largest car-maker as well as its reputation for quality and reliability.

Mikhail Zverev, head of global equities at Aviva Investors and manager of the Global Equity Unconstrained Fund, believes that Covid has up-ended the consensus view that individually-owned vehicles were a thing of the past.

'More people will work from home and further afield, and they need a car, while some are thinking about starting families which typically means buying a new car. The affordability of electric vehicles has changed the game and will accelerate the 'park refresh' rate.'

Zverev also points to the valuation disparity between VW and Tesla. VW has spent as much on technology as Tesla, yet it trades on 6.6 times next year's earnings compared with 128 times for Tesla. 'There's a Tesla inside VW which isn't reflected in the price', he concludes.

VW is also a play on the rising Chinese middle class as it manufactures vehicles in the country both under its own brand and through joint ventures.

FUNDS TO PLAY EUROPE



For investors looking to tap into high-quality European growth companies but who don't have time to do their own research and want someone else to pick the stocks for them, there is no shortage of UK funds and trusts investing in Europe.

For large-cap quality growth, we like **Henderson EuroTrust (HNE)**, managed by Jamie Ross. The fund focuses on sustainable growth 'compounders' which can reinvest their substantial cash flows back into the business and keep growing.

While Nestle and Novo Nordisk are both top ten holdings, Ross also has investments in platform businesses such as Scout 24 – a German equivalent to **Rightmove (RMV)** – and Delivery Hero, a global rival to **Just Eat Takeaway (JET)**.

Unusually the trust is trading at an 11% discount to net asset value as its holdings have outperformed the benchmark but the share price has yet to catch up.

We also like the five-star rated **Comgest Growth Europe (B28PG35)**, a focused large-cap fund with €3.9bn of assets as of the end of July invested in just 38 stocks.

EUROPEAN INVESTMENT TRUSTS - 2020 PERFORMANCE

Trust	Performance year-to-date
Baillie Gifford European Growth Trust	30.1%
BlackRock Greater Europe Investment Trust	9.6%
Henderson EuroTrust	7.0%
Fidelity European Values	2.5%
Henderson European Focus Trust	-8.9%
European Opportunities Trust	-14.0%

Source: SharePad, 17 August 2020

Like Ross, manager Arnaud Cosserrat – who is also chief executive and chief investment officer of Comgest – is a holder of Novo Nordisk, while his other top five holdings include ASML and SAP.

The fund has a heavy weighting in healthcare and technology, which has served it well during the pandemic, and it scores well in terms of its carbon and environmental footprint – details of which are included in its monthly factsheet – making it a sound choice for ESG investors.

SAP is one of the most important stocks in Europe

The German tech giant generates billions in revenue and profit every year



Germany's **SAP** might be the most important company you have never heard of. It is a genuine enterprise technology sector giant, relentlessly generating billions in revenue and profit year after year.

Listed in Frankfurt and Stuttgart and worth €168 billion, it is Germany's largest listed company, bigger than household names like Adidas, BMW and Volkswagen combined, and the biggest tech firm in Europe, more than 20 times the size of **Sage (SGE)**, the UK's largest tech company.

CRUCIAL TOOLS FOR BUSINESS

For decades SAP has provided critical applications for businesses of all shapes and sizes, although about 80% are small and medium-sized (SME) operations.

It specialises in key enterprise

resource planning (ERP) tools without which businesses simply could not run, such as supply

chain management, human resources, customer experience management and analysis, spend intelligence, machine learning-based analytics, and more. There's also a €4 billion venture capital arm called Sapphire Ventures.

At the end of 2019, SAP had more than 101,000 staff helping in excess of 440,000 customers across 180 countries, with more than 200 million cloud platform users. This includes 92% of Forbes Global 2000 companies and 98% of the 100 most valued brands, companies crucial to our daily lives.

According to SAP, its clients distribute 78% of the world's food and 82% of the world's medical devices, while 77% of the world's transaction revenue touches an SAP system at some point.

The sheer scale and breadth of SAP is one of the reasons why the stock appears in all types of funds; Europe-focused, global growth, technology specialists and more.

SAP IS A 'HIDDEN GEM'

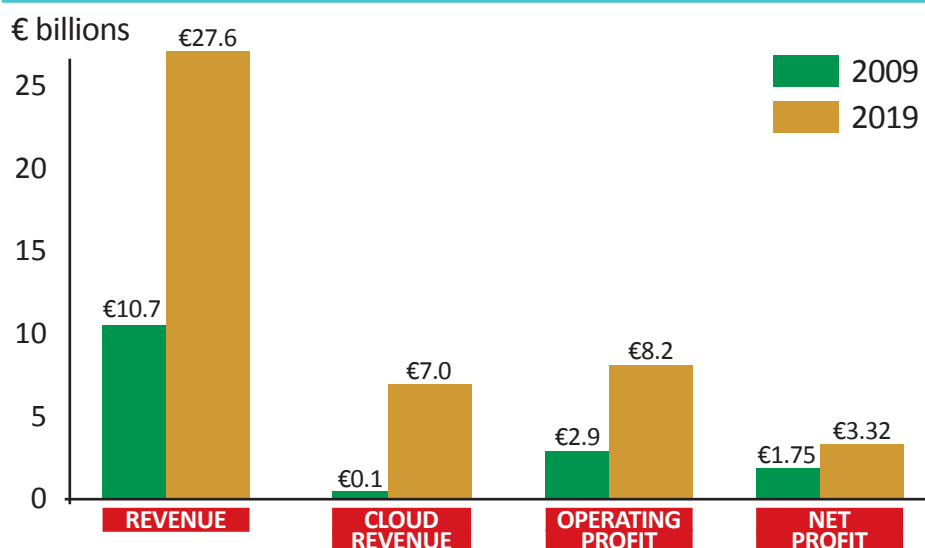
Simon McGarry, senior equity analyst at Canaccord Genuity Wealth Management, points out how the technology sector has rewarded investors this year, albeit many of the big US names are now looking expensive.

He suggests looking at European tech stocks where share price performance has generally been more sedate than peers in the US, implying an opportunity to pick up good names in the sector at a discount to highly valued names in North America.

'These stocks have been mistreated by the market and have fallen victim to the location of their listing as opposed to where they do business,' he adds.

McGarry says tech stocks in Europe are benefiting from the same structural growth trends as the US and highlights SAP as one of the hidden gems on the market. It appears on a filter of European tech names with strong cash flows and returns, solid balance sheets and businesses able to prioritise the long term by investing in R&D.

SAP'S SUSTAINABLE, LONG-RUN GROWTH



Source: SAP

GATHERING CLOUD

The key to understanding the investment case is to grasp SAP's own cloud adoption story. Since launching its HANA (High-Performance Analytic Appliance) platform nearly a decade ago, cloud has been its primary focus, designing HANA tools that are industry-specific yet highly customisable.

This ensures value for users through better decision making, improved operating efficiency and cost flexibility needed in an increasingly digital world.

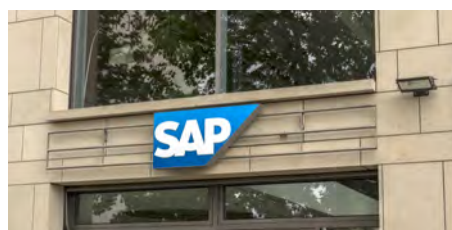
It has had significant success, as its huge growth in subscribers and revenue shows. Yet more than twice 2019's €7 billion cloud income still comes from traditional licence sales and high margin support, with 86.6% gross margins in 2019.

This represents a challenge for any software business not born in the cloud because switching customers over typically depresses short-term revenue and profit as the support income dries up.

The pay-off down the line should be more sticky

subscription revenues from a cheaper, more flexible platform for users, plus lower cost of distributing updates, among other things. Finding the right balance is important.

In the last three years, for example, SAP's revenues increased at an average growth



BUMPY PROFITS RIDE

Net profit (€ billion)	
2009	1.75
2010	1.81
2011	3.44
2012	2.80
2013	3.33
2014	3.28
2015	3.06
2016	3.65
2017	4.01
2018	4.08
2019	3.32

Source: SAP, Statista

rate of 8%, yet its adjusted operating margin declined from 27% to 23%, according to data from FinLABO Research. This helps explain the volatile nature of its net profit performance which has moved up and down over the past decade rather than show sustained progression year after year.

GROWTH AND QUALITY

That said, the stock scores highly on several quality metrics. For example, return on equity stands at around 20%, more than twice its estimated 8% cost of capital. Return on capital employed is estimated at approximately 18% next year.

SAP has built its business on a sound financial structure. Net debt is estimated at €9.9 billion this year, putting its debt-to-equity ratio at a very comfortable 0.3, and debt-to-EBITDA of 1.03. Earnings per share are forecast to outstrip the mid-single digits growth of revenue over the next couple of years at an average 13% or so.

In the past five years the shares have more than doubled to €135.13, putting the stock on a rolling 12-month price-to-earnings ratio of 25.1, based on Refinitiv data, an 11% premium to the software sector.

We wouldn't be surprised to see that premium widen over the coming years as SAP leverages its scale advantages to maximise its cloud opportunity, accelerating profits potentially beyond current expectations.



By **Steven Frazer**
News Editor



Are commodities primed to shine again?

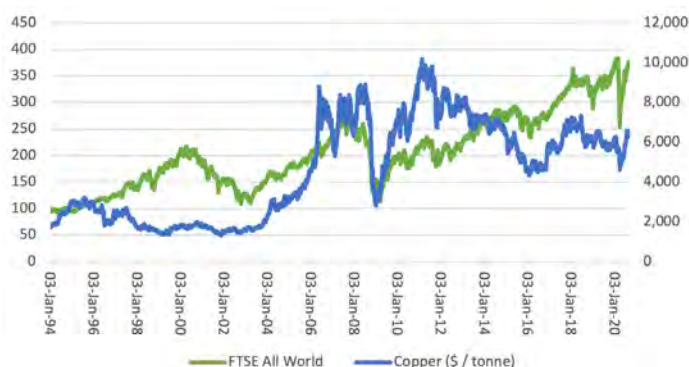
Prices have rallied since the spring but still lagged equities

Copper's surge from its spring lows to a three-year high at around \$6,500 a tonne is an eye-catching development and one that will quicken the pulse of those investors who are exposed to miners, cyclical stocks or even equities more generally.

The metal is malleable, ductile and a terrific conductor. As such, it has many industrial uses, ranging from construction to automotive production to wiring to integrated circuits and as a result the metal is nicknamed 'Doctor Copper', because it is often seen as a good guide to the globe's economic health.

Investors also seem to treat copper as a useful indicator, since surges in copper seem to coincide with periods of strong performance from the FTSE All-World index and periods of weakness in both also seem to tally (although we must accept that the past is no guide at all to what may happen in the future).

A rally in 'Doctor Copper' could be an encouraging sign for equity markets



Source: Refinitiv

After a minor retreat from its July high, investors who are bullish on the global economy and equities will be looking to copper to make fresh ground,



while sceptics will be waiting for a longer, deeper slide in the metal's price.

On a wider basis, commodity prices more generally have rallied from the lows plumbed in spring, when investors fled pretty much all risk assets thanks to fears about what the pandemic may mean (fears which could yet be borne out). The Bloomberg Commodity index, which tracks the 'spot' price of 24 raw materials ranging from copper to aluminium, gold to silver, hogs to crops and oil to gas, is up by almost a third since late March.

However, that pales next to the 51% surge seen in America's S&P 500 equity benchmark over the same time period and the chart shows that commodities' performance badly lags that of American stocks for a good decade or more.

This is intriguing, as commodities and commodity-related stocks dominated for much of the first decade of this millennium to the extent that ExxonMobil, Petrochina, **BHP (BHP)**, Petrobras and **Royal Dutch Shell (RDSB)** were among the ten largest stocks in the world in 2010, as ranked by market capitalisation.

Investors were clambering over themselves to buy commodity and commodity-related and China-related stocks, in the view that the Middle

RUSS MOULD

AJ Bell Investment Director

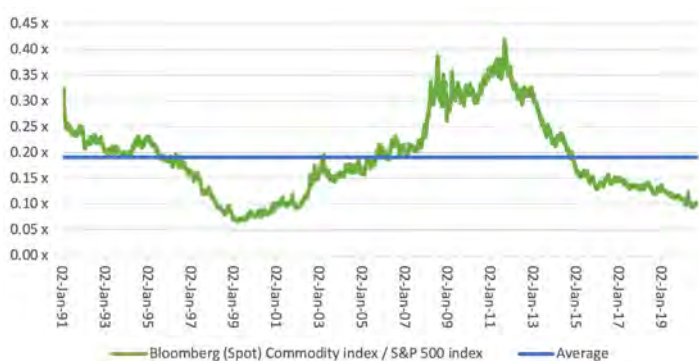


Insightful commentary on market issues

Kingdom would continue to grow at a rapid clip, driving both global economic activity and raw material demand in the process.

That narrative came unstuck fairly quickly. Oil – for one – has never reclaimed the heights it reached in 2007-08 and the Bloomberg Commodity Index now trades close to the all-time relative lows against the rampant S&P 500 benchmark, reached when technology, media and telecoms (TMT) stocks were in very bubbly form in 1999.

Commodity prices trade near their lows on relative basis against the S&P500 index



That begs the question of whether we are now seeing another period when tech stocks are getting overheated and commodity stocks are being under-appreciated. Investor sentiment is clearly lopsidedly in favour of tech, in the view that growth is scarce and companies that are capable of generating strong increases in earnings on a secular basis are inherently more valuable than raw material producers where price is their only weapon and end demand is uncertain.

Yet sentiment was similarly in favour of tech in 2000 (when commodities, miners and oils promptly beat tech stocks hands down for a decade) and in favour of raw materials in 2010 (when tech stocks promptly got their own back for the next ten years). Could investors be about to be sandbagged by a similar switch in the next decade, restoring faith in commodities as a worthwhile diversifier and a potential provider on uncorrelated returns as part of a diversified portfolio

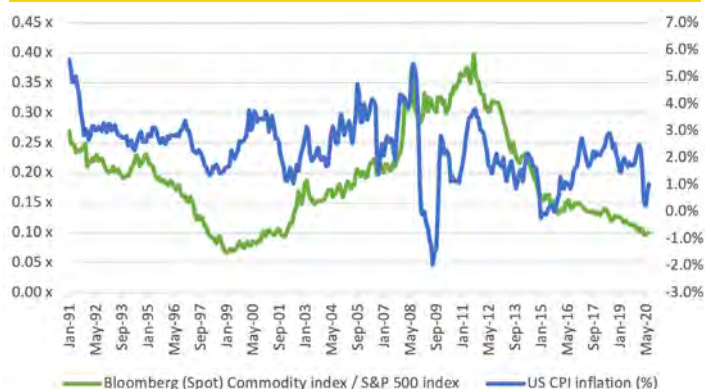
It is possible that the foundations for their

renaissance are in place, especially as the best cure for low prices is low prices, as they destroy supply and boost demand. Granted, we are seeing demand destruction right now thanks to the recession that followed the pandemic. But we are seeing supply-side destruction too as miners and oils alike rein in capital expenditure, focus on cash flow and curb production in many areas.

Cheap assets can get a lot cheaper if nothing happens to change perception and bulls of commodities need a catalyst that will get other investors interested – as Jim Grant once wrote, ‘successful investing is about having people agree with you...later’.

One possible such catalyst would be the return of inflation. This would be all the more powerful as it would be so unexpected at a time when the depth and duration of the recession is the main market topic of discussion today and most investors seem frightened of a downturn and deflation above all else.

A resurgence of inflation could be one trigger for renewed interest in commodities and commodity-related stocks



[This column](#) noted two weeks ago how inflation expectations are slowly ticking higher in the US, thanks to massive amounts of fiscal and monetary stimulus. If this trend continues, commodities could benefit, as the final chart suggests, although higher inflation expectations are likely to be needed to prise some investors away from their beloved tech stocks.



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Don't get sucked into the hydrogen hype

There is potential in the sector but UK-listed participants are priced for perfection

If you were a shareholder in a hydrogen fuel cell company a year ago, right now you could be sitting on a small fortune.

For UK investors, there are three stocks directly involved in the space. Two of them, **AFC Energy (AFC:AIM)** and **Ceres Power (CWR:AIM)**, make fuel cells, and the other, **ITM Power (ITM:AIM)**, makes electrolyzers, a low carbon way to produce hydrogen.

The share prices of all three have soared in the past year. ITM has been increased 10-fold, AFC Energy is up five times and Ceres Power has almost tripled. In our view these businesses are now priced for perfection and we think the risks are too high to invest at these levels.

For more diversified exposure to the hydrogen opportunity through a mature business investors could buy **Johnson Matthey (JMAT)** which trades on an enticing March 2022 price to earnings ratio of 11.8 times.

ELECTRIFYING ENERGY

There's a general consensus that electrification of energy is pretty much central to any solution to combating climate change and protecting the environment, and now more than ever hydrogen is increasingly being recognised as a key part of that process.

Hydrogen is increasingly being



seen as central to getting us to a net zero carbon world by 2050. The gas has a wide range of uses, and can be used to store energy, heat homes, decarbonise the heavier, dirtier industries like cement, steel, glass and petrochemicals, and has the ability to generate electricity.

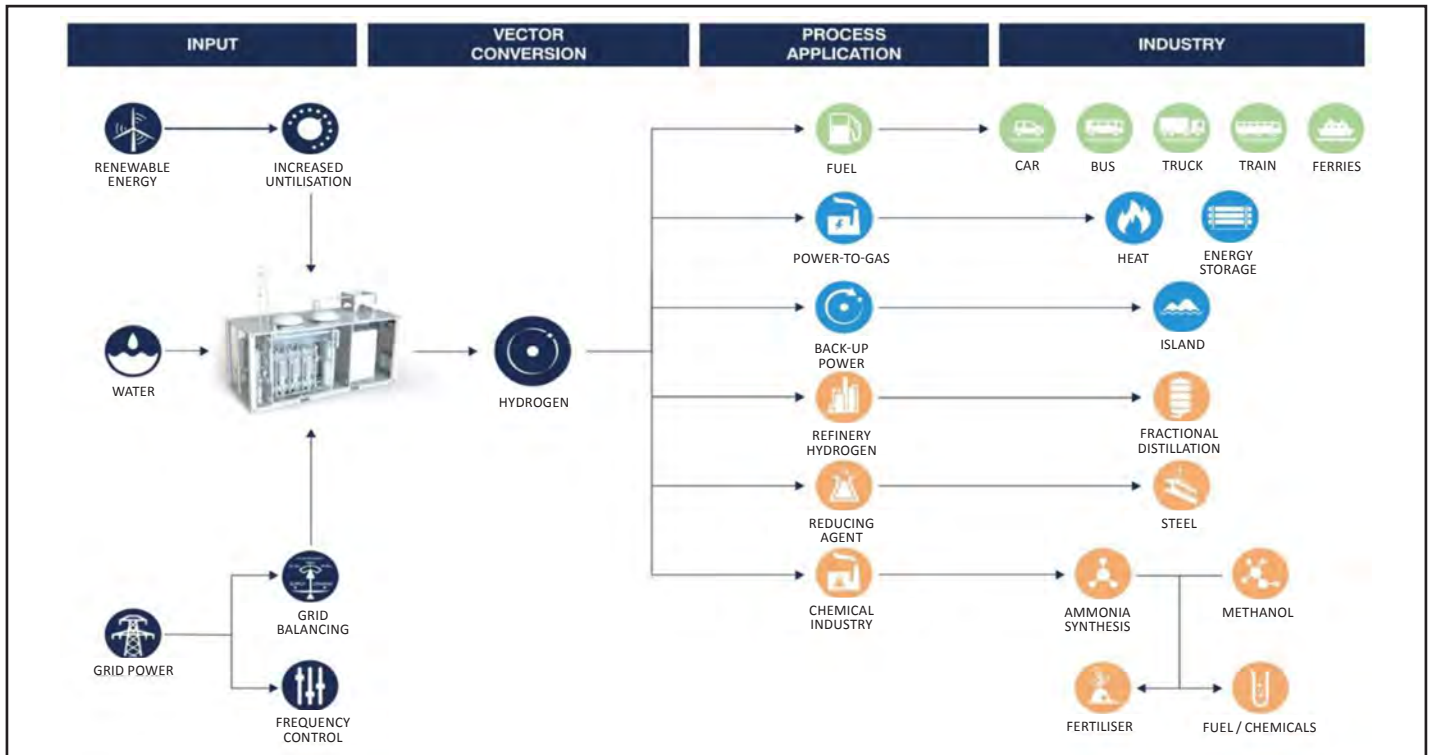
There's also a realisation that clean hydrogen can play a vital role in balancing the future energy system because it can be created from renewable energy such as wind and solar during periods of oversupply via water electrolyzers, but can create energy through fuel cells when that intermittent energy generation is low.

None of all this would matter if the technology to make it

happen wasn't ready, but it is now with companies starting to reach commercialisation of things like fuel cells and electrolyzers – two key enablers for using clean hydrogen – while the rapidly rising adoption of renewable energy is also helping companies integrate hydrogen to the way they do things to help them decarbonise their activities.

SITTING UP AND TAKING NOTICE

And there are two main reasons in particular why people are starting paying attention now. Firstly, major companies like **BP (BP.)** and **Royal Dutch Shell (RDSB)** are looking at ways to add clean hydrogen to their business models to help the



Source: ITM Power

transition to greener energy.

Secondly, investors are getting excited about clean hydrogen because policymakers are too, particularly when it comes to planning for a net zero carbon future.

What has everyone taking notice is commitments from governments which suggest the hydrogen and fuel cell sector could be a big winner in national industrial recovery programmes currently being planned.

For example, Germany's finance minister recently indicated €9 billion of the €150 billion recovery package announced a few months ago will be designated for clean hydrogen projects, in particular electrolyser projects.

Reports also indicate the European Commission is working on a big green energy support programme. Full details of the EU Green Deal have yet to be announced but are said to include a proposed €40 billion energy

GLOBAL HYDROGEN STOCKS 12-MONTH PERFORMANCE

Company	%
FuelCell Energy	890%
ITM Power (ITM:AIM)	713%
Plug Power	566%
AFC Energy (AFC:AIM)	544%
McPhy	543%
Powercell	352%
Ballard	337%
Ceres Power (CWR:AIM)	294%
Bloom Energy	293%
Nel	287%

Source: Google Finance, 14 August

transition fund where hydrogen is set to be heavily featured. EU Commissioner for Energy, Kadri Simson, called hydrogen a potential 'game changer'.

CHINESE GROWTH OPPORTUNITY

In further good news for the industry, China seemingly wants to show the world how progressive and innovative it

is after unveiling its hydrogen strategy in July 2020, in which it wants to compete with the West for clean hydrogen 'superpower' status.

The country plans to have 5,000 vehicles powered by fuel cells – which convert hydrogen into electricity to power cars, buses, heating, etc – on the road by the end of the year, and a million by 2030.

According to analysts at Berenberg, industry sources estimate that the fuel cell market will record a 24% compound annual growth rate between 2016 and 2024, with fuel cells an increasingly relevant solution to the intermittency and capacity issues the electricity grid will face in the coming years with electrification and the rise of renewables.

The rocketing valuations of ITM, AFC and Ceres however have raised eyebrows, especially given none of these companies are making a great deal of money

right now, with all of them still in the early stages of development.

ITM Power for example only recorded £3 million of sales in the year to 30 April, yet it has a market value of £1.3 billion, trading on a price-to-book valuation of 16.8 times, according to Stockopedia. Most companies have a P/B ratio of between one and three.

AFC Energy hasn't generated any revenue and trades on a P/B ratio of 29.2 times. Ceres Power on the other hand has annual revenues of £23.5 million and trades on a lower valuation, but isn't close to turning a profit and still trades at a demanding P/B ratio of 10.4 times according to Stockopedia.

WE'VE BEEN HERE BEFORE

If you look back at the all-time share price chart for the three companies, you'll see their valuations soared in the middle of the noughties before spiralling down as quickly as they rose, and spending the subsequent decade firmly in small and micro-cap territory.

This begs the question of whether or not this is simply another hype stage. All those involved in the industry insist this time it's different. Though, as a reminder, these were once described by investment guru Sir John Templeton as the most dangerous words in investing.

'This is very real', says Phil Caldwell, chief executive of Ceres Power. 'When I started in fuel cells 20 years ago, none of the big companies really needed this technology.'

'But now there is the need for electrification, there is the need to meet climate change targets,



and these companies need fuel cells to enable that shift.

'Also, don't forget the ESG angle is very strong now, you even see it on the agendas of companies like **BP (BP.)** and **(Royal Dutch) Shell (RDSB)**. Whereas 20 years ago it was about the technology, now it's essential to hitting climate change targets. There wasn't that commercial imperative back then, but there is now.'

That commercial imperative is starting to show in the partnerships companies like Ceres are announcing. The firm has cut deals with the likes of Bosch and Chinese giant Weichai Power, who both own significant stakes in Ceres.

While ITM Power is working in a joint venture with industrial gas giant Linde, and counts Shell among its customers, and AFC Energy has announced a partnership with Spanish construction giant Acciona.

This is also part of what has driven investor interest, according to Investec analyst Marc Elliott. He says, 'We believe companies such as

Ceres, ITM Power, Ballard and Plug Power have become more prominent within the investment community at least partly as a result of the deals and alliances they have formed with major multinationals.

'The inference is that these major companies have ascertained that they need access to this IP. They have extensive R&D capabilities and resources, and consequently their involvement is also seen as key to de-risking the commercial development of the technology.'

WHEN WILL POTENTIAL BECOME REALITY?

But going forward, the question people really want to know is, when will all this potential become reality?

Ceres, which licenses its technology rather than manufactures the fuel cells itself, sees its partners mass manufacturing its products in the next three to four years.

ITM Power is set to move into a factory in Sheffield in November, which will be the world's largest electrolyser

factory when finished, and according to a research note from Investec the company should ramp up to capacity after three years, with annual turnover eventually reaching £500 million.

But according to current forecasts compiled by Refinitiv, not much is expected in the next year or two. ITM's revenue is slated to reach £15.8 million in its 2021 financial year and £37.9 million in 2022, with its losses narrowing from £16.2 million in 2020 to £5.5 million in 2022.

Ceres Power's revenue is forecast to rise 14% in 2021 to £26.8 million and 30% in 2022 to £34.9 million, according to Refinitiv, while AFC energy is forecast to start generating around £2.5 million in revenue next year.

One of the questions investors have also been asking is whether or not, given their small size compared to the might of the firms they're partnering with, these companies could become takeover targets and simply be bought by some multinational.

ITM Power's chief executive Dr Graham Cooley says there will be a 'wave of consolidation' in the industry going forwards, but insists ITM Power for example is 'in this for the long-term', and that its intention is to be 'world leaders' in the industry.

On the surge in interest in the sector, Cooley says with conviction, 'Listen, I could see what was coming a year ago. The demand that's coming is incredibly large. ITM Power is in the right place at the right time.'

AN ALTERNATIVE WAY TO PLAY THE HYDROGEN THEME

There are other companies starting to get involved in the space, which unlike the ones above are much larger and/or earnings positive.

They include FTSE 100 industrial giant Johnson Matthey. In our view this is a lower risk way to play the growth in hydrogen.

The company doesn't appear to derive much revenue from hydrogen technologies at the moment, but it sees hydrogen as a key part of its longer term growth and spending on R&D development for hydrogen fuel cells and low carbon hydrogen projects.



By Yoosof Farah
Reporter



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ShareSoc wishes all its supporters a safe holiday. Watch this space for more interesting events this coming autumn!



The case for credit report services

There are good reasons to keep track of your financial profile



Your credit file is a precious thing that's worth protecting. It's all too easy for scammers to steal your identity or passwords and take out credit in your name.

Keeping a close eye on your credit report means you can spot fraud quickly before it can do too much damage. Plus, an up to date and accurate credit file opens the door to more affordable credit in future, should you need it.

There are now lots of services competing for your attention which claim to guard your credit file, but are they any good? What's the catch with the free services, and are any worth paying for?

There are three major credit reference agencies: Experian, Equifax and TransUnion, and

Since 2018,
you've had a legal
right to check
your credit report
for free

Experian is the largest so it tends to be used by lenders such as the big banks.

Since 2018, you've had a legal right to check your credit report for free, under GDPR rules (it used to cost £2 to see your statutory report, the most basic one). To see your more detailed full report, you may have to sign up for 30-day free trial which you must then remember to

cancel to avoid being charged monthly fees.

The paid-for services typically give you enhanced monitoring of your credit file, so you will get fraud alerts or instant updates when something changes with your file, or they might give you tips on how to improve your credit score. If you use other providers rather than going direct to the credit reference agencies themselves, you can get more detailed reports for free, but the companies will try to make their money by selling you other products and services.

SHINING A LIGHT ON THE DARK WEB

ClearScore Protect is one of these companies, and it is particularly eye-catching as it

gives you access to your Equifax credit report and also promises to monitor the dark web – the hidden part of the internet beyond the reach of search engines, where criminals lurk – to check whether any of your passwords or personal details have been stolen.

The best part is, it's free forever. The company sends you offers for other products when you sign up for this service, but you can opt out of marketing emails.

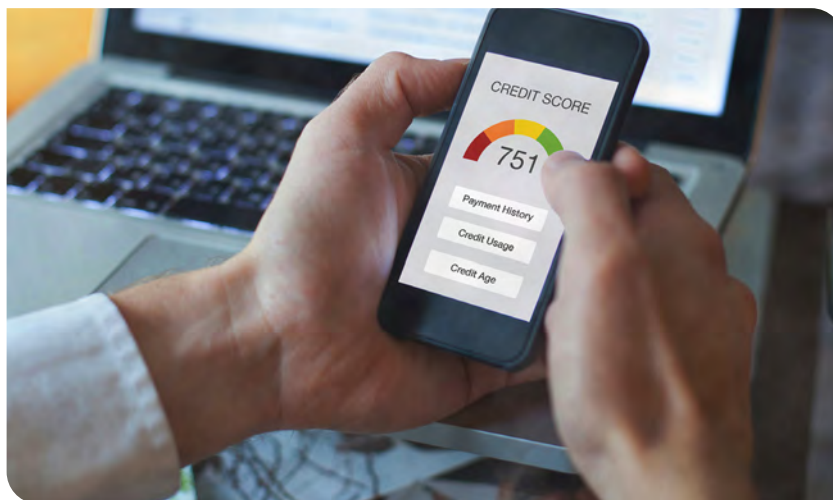
Justin Modray, founder of Candid Money, says for those who want to keep on top of their credit score, ClearScore is 'a no-brainer' because it offers for free what Equifax charges £7.95 a month for.

'The downsides are currently minor, the report is updated monthly, although paid-for services may update more frequently, and you'll be targeted with offers on which ClearScore earns a commission. But if you're happy to skip the offers, which may not be the best deal for you, then it really is a free service,' he says.

'Whether their business model can sustain this long term remains to be seen, but for now it's well worth taking advantage of. And its new dark web monitoring tool sounds very useful on paper, as it looks for signs of fraud and stolen passwords.'

OTHER COMPETITORS

Other options he suggests are MoneySavingExpert's Credit Club, a free service which offers access to your monthly Experian credit report, although you don't get the dark web monitoring ClearScore gives you. 'Going to



Protecting your access to credit

Rachel Springall, finance expert at Moneyfacts, has used ClearScore herself for three years and says she hasn't had any problem with the service, and has also tried out Experian. She found it easy to change preferences and opt out of 'selling emails' such as product recommendations so there's little worry about being bombarded with spam if you sign up to these services.

She explains why, especially in the era of Covid, it's good practice check your credit report regularly. 'With coronavirus and everything else, there are a few scam artists out there looking to get your cash and your valuable information and sell it to other dodgy people. Make sure you keep a close eye on your credit reports for any suspicious activity.'

Equally, an inaccuracy on your file such as a default, late payment or linked person or address could still affect an application for credit years later. Go through your report thoroughly and check everything to make sure you can get the best deals if you need credit in the future, she advises.

Experian direct costs £14.99 a month, so it's a big saving if you can live with monthly rather than real-time updates, and most of us likely can,' says Modray.

Then there's a less comprehensive (but also free) service from Credit Karma (formerly known as Noddle), which accesses TransUnion credit reports, but there is less reason to choose this over the other options because TransUnion is

less widely used by lenders.

'I've already felt it's a rip off to pay for accessing your own credit details so it's great to see that, for now at least, there are perfectly adequate free services providing this facility,' Modray adds.



By Hannah Smith

What moves a share price

Forecast-beating results, game-changing contract wins and takeovers are just some of the catalysts that shift a stock

So you have opened a share dealing account, familiarised yourself with the mechanics of buying a share and purchased a few companies for your portfolio. The next step on the novice investor's journey is to learn about the numerous factors that drive a share price higher, or lower.

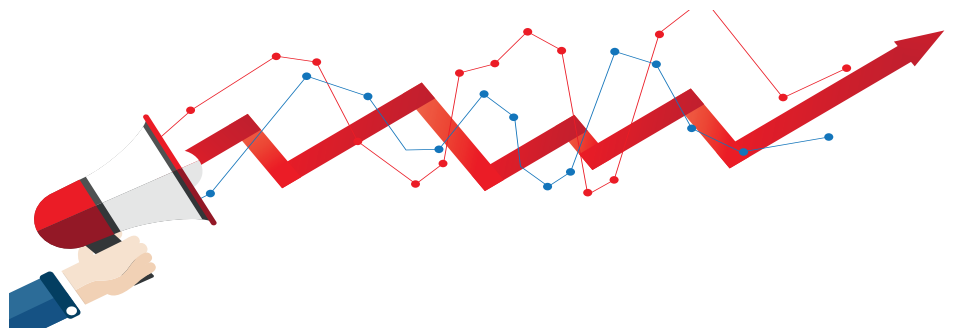
From a top down level, these factors include macro-economic events and data points such as gross domestic product (GDP) readings or interest rate movements, which can impact how shares as an asset class are valued relative to bonds and cash, as well as general investor sentiment towards a particular sector.

However, the key determinant of a share price is how well the company in question is performing; when a business is doing well investors want to own it, so demand pushes the share price higher, and vice versa.

THE POWER OF CATALYSTS

Investors need a reason to buy a share and some of the strongest catalysts to influence trading are announcements by companies to the stock market. These can be contract wins or directors buying or selling shares, though the most obvious catalysts are the publication of half-year (interim) and full-year results.

As a first-time investor, you need to understand that markets are inherently forward looking and financial figures are historic.



Their ability to move a share price is determined by the outlook statement and whether the numbers are ahead of or behind market expectations.

Many companies update on trading in between their published results and analysts often respond by upgrading or downgrading their earnings forecasts.

Stockbrokers compile in-depth financial forecasts for companies which they issue to clients; these are then aggregated to arrive at consensus estimates for sales, profits and earnings per share (EPS), which the first-time investor can access via financial information providers including Bloomberg or Refinitiv, or via free-to-use websites such as *Shares* own site or Sharecast.com.

Forecast-beating financial results typically drive upgrades

to earnings estimates, which can often combine with a 're-rating' of the multiple investors are prepared to pay for a stock, providing investors with a double-whammy that sends the shares surging higher.

In contrast, profit warnings trigger downgrades and 'de-ratings' of a stock and its earnings multiple. Over-supply of a stock following the issue of new shares, which dilutes equity ownership, can also exert downwards pressure on a share price.

OTHER CATALYSTS TO CONSIDER

Other catalysts that move share prices include fundraisings, earnings enhancing acquisitions or balance sheet strengthening disposals. New contract wins or stake building by activist investors seeking to shake things

WHY SHARES FALL ON GOOD RESULTS

You might notice on occasion a share price will fall after an excellent set of numbers are published. Typically, this happens when results are published after a bullish update, as the market will already have factored in strong performance.

SHARE PRICE CATALYSTS

Macroeconomic

- GDP – recovery favours cyclical, recession favours defensives
- Changes in interest rates
- Foreign currency movements
- Commodity price movements

Sector

- Remember: A 'bad' stock in a 'good' sector will outperform a 'good' stock in a 'bad' sector
- Industry data: orders, volumes, prices
- Results and trading statements from global peers
- Merger and acquisition activity
- Regulatory intervention

Company Specific

- Profit forecast momentum
- Increases or cuts to the dividend
- Acquisition or disposal
- Fund raisings
- Contract wins, drilling results, drug trials
- Changes in management
- Restructuring
- Director share dealings
- Activist investor buying stock

up are additional events that can drive share price upside.

In the biotech sector, watch out for positive drug trial results, as these can drive dramatic share price appreciation, while drilling and project updates are often catalysts in the resources space.

For example, **Touchstone Exploration (TXP:AIM)** confirmed its significant Cascadura natural gas discovery in February and has had positive updates on the find since, sending the Trinidad oil firm's shares gushing higher year to date.

Takeover bids typically drive a share price higher, as the acquirer usually offers a premium to the prevailing share price in order to persuade shareholders to accept cash today in return for foregoing the potential long-term upside from owning the share.



An example is motor insurer **Hastings (HSTG)**, which recently surged higher on the back of a 250p cash bid.

The offer represented a 47.1% premium to the Hastings share price before the company alerted the market that it had received an approach.

Investing solely on the expectation of a takeover is not a sensible approach. You'll never be able to predict with 100% accuracy which companies in your portfolio will entice a bid.

Recovery funds look for stocks that have fallen in price, yet which have the potential of climbing back or even exceeding previous levels. But an undervalued stock can remain undervalued indefinitely without the catalyst to prompt a re-rating. These might include a change of strategy or the repair of a battered balance sheet, usually

accompanied or preceded by a change in senior management.

A maiden or resumed dividend can be a catalyst even if it has already been well flagged as new investors are attracted by the prospect of regular income.

WHY PROFIT WARNINGS ARE PORTFOLIO PUNISHERS

Share prices can go down as well as up and one of the main catalysts for losses is the dreaded 'profit warning', a broad term to describe a situation when a company is forced to downgrade its earnings guidance. It might have lost a contract, suffered higher than expected costs or experienced a difficult trading period that has caused sales growth to slow or even a sales slump, to give just a few examples.

Understanding the cause of the profit warning is paramount for deciding whether to keep hold of the shares or to get out quickly in case the shares fall further.

Sadly, lots of investors underestimate how far a share price needs to travel in order for you to get back to the level it traded before.

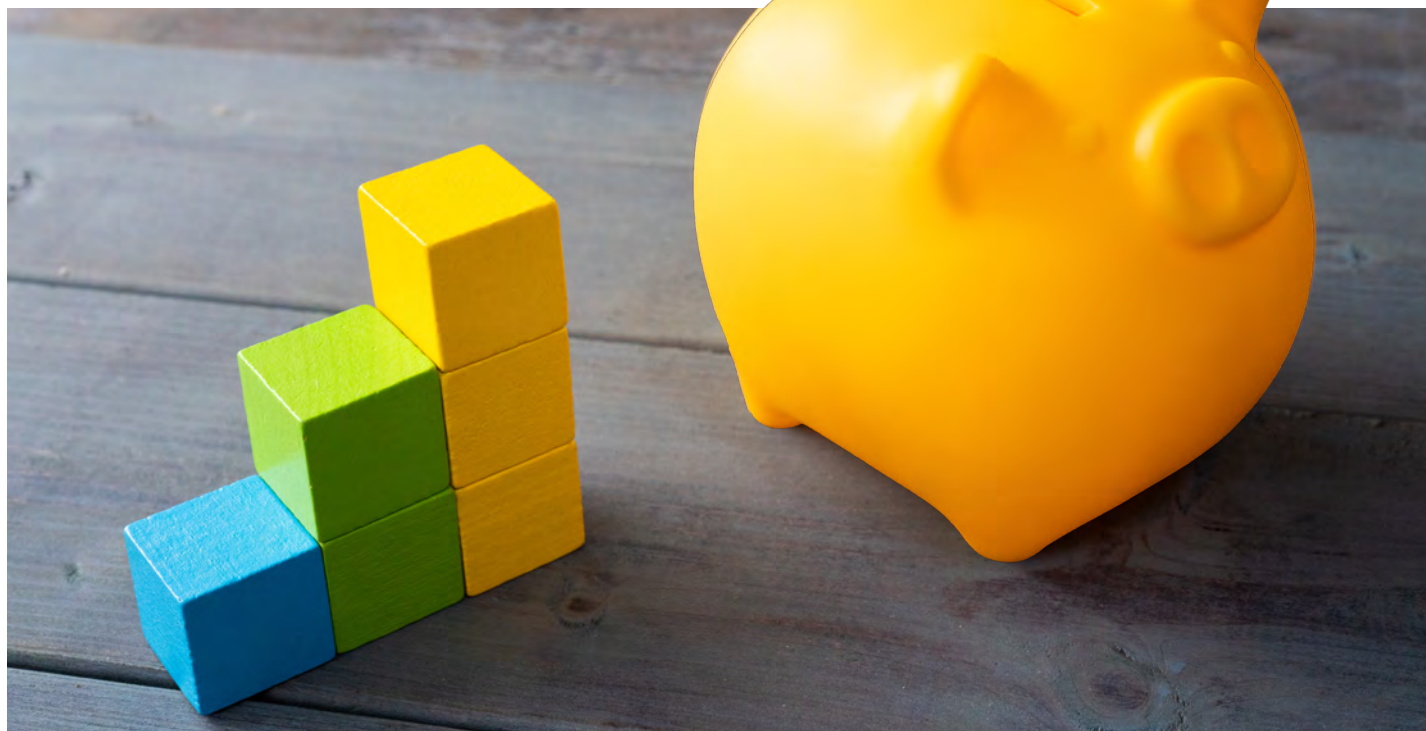
If a share price halved from 100p to 50p, equal to a 50% decline, then you would need the share to double, or increase by 100%, in order to get back to 100p. So try not to get too carried away when a share price starts to recover, as you may have to wait longer than you think in order to get back on track.



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

Joining the kids savings boom

How spending deferred by lockdown could translate into a tidy nest egg for your children



Parents and grandparents have put away more money for their children during the current coronavirus pandemic, as they've saved money on their usual outgoings and funnelled that into Junior ISAs.

Lots of people have found they've saved money during lockdown, whether that's not paying for commuting costs, the cost of childcare disappearing, not going on the family holiday or just going out less. While it would be tempting to save this money to splurge once the pandemic is fully over, lots of savvy parents have put the money away for their children's future.

There's been a big increase in the number of people putting money into their children's ISAs during the past three months. From April to June the AJ Bell Youinvest platform has seen a 113% increase in the number of people paying into a Junior ISA when compared to the same period last year, showing that many have used lockdown to organise their finances and put their savings to good use.

There has also been a rise in the total amount people are contributing, up 127% over the three months to the end of June when compared to the same period last year. Average subscriptions per

JISA have risen by 26%, from £1,853 to £2,326. However, there was a dramatic increase in the Junior ISA allowance in April, from £4,368 up to £9,000, which some parents may be making full use of and could skew the figures.

Even putting away an extra £50 a month can really boost your child's savings pot, as with 5% investment growth a year after charges this would add up to almost £8,000 over 10 years. If you could afford to bump this additional contribution to £100 a month then you'd give your kid an extra £15,850 in their pot after a decade, assuming the same 5% return a year.

WHAT CAN YOUR LOCKDOWN SAVINGS MEAN FOR YOUR CHILD'S FUTURE WEALTH?

Cost of commuting = £10,480

According to Lloyds Banking the average cost of commuting per month is £66.13 across the UK. During lockdown lots of people have been working from home and many expect to only go back to the office part-time or not go back at all. So if parents saved the cost of one of them commuting each month and put that money into a Junior ISA they would have £10,480 after 10 years, assuming a 5% return each year. Even after five years they've have built up almost £4,600 extra.

Cost of childcare = £7,063

It costs £1,084 on average for a child under the age of two to have full-time childcare at a nursery in England, according to the Coram Childcare Survey. Lots of people saw their nursery close during lockdown and stay shut for four months, and while this presented many with a childcare nightmare it definitely saved families lots of money. Obviously nurseries are re-opening and this

likely isn't a lockdown cost you can save forever, but funnelling just those four months of the average childcare cost into your child's Junior ISA as a lump sum would boost their pot by £7,063 after 10 years, assuming 5% growth a year.

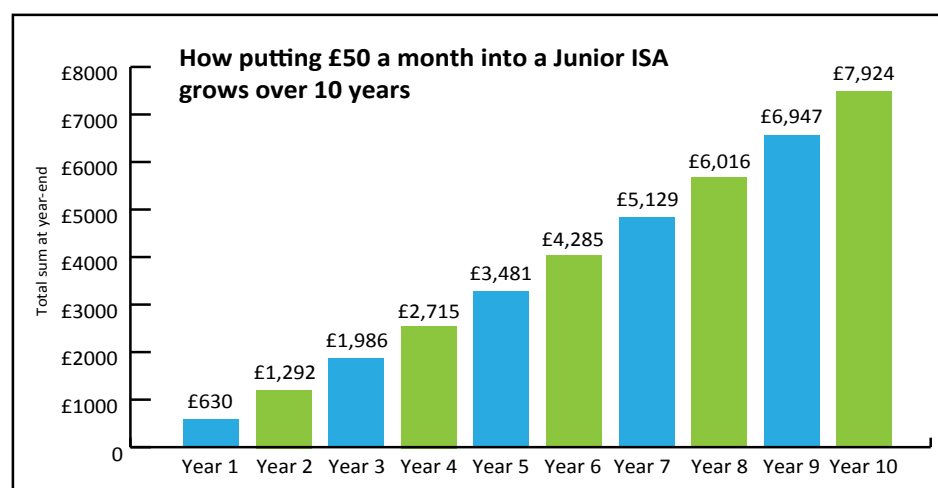
Eating out = £13,735

As restaurants shut in lockdown people couldn't go out to eat and still many families are reluctant to go out for a meal. Even after the current pandemic is fully over many people may decide to eat out less in order to carry on saving money. If you previously

went out for one meal a week costing £40 each time but you now cut that down to one a fortnight, that's a saving of £1,040 a year. If that's funnelled into a JISA instead it would amount to £13,735 after a decade, based on 5% return a year after fees.

Cost of a holiday = £4,365

Lockdown has meant that many families have cancelled holidays. While some might be re-booking a UK break or venturing abroad later this summer, many will have cancelled for this year and saved the cash instead. The average spend per person for a holiday abroad is £670, according to figures from the Office for National Statistics. This means that for a family of four it would cost £2,680 per holiday. That same lump sum of money funnelled into a JISA as a one-off would equal £4,365 after 10 years, assuming 5% growth a year.



Source: AJ Bell. Assumes £50 a month contribution growing by 5% a year after charges.

JUNIOR ISAS – THE BASICS

You can open a Junior ISA for a child if they're under 18 and you're their parent (or in a position of parental responsibility). Only parents or guardians can open a Junior ISA, but anyone can pay into them, such as grandparents or friends.

A Junior ISA shelters your child's investments from capital gains and income tax. You can put in up to £9,000 a year, either in a lump sum or in regular payments, but the money is locked away until your child turns 18, at which point they become responsible for the money.

If you've already set up a Child Trust Fund for your child you can still open a Junior ISA but you'd need to transfer the Child Trust Fund in straight away.



By Laura Suter
AJ Bell Personal
Finance Analyst

Help, I've been overtaxed on my pension

Our resident pensions expert Tom Selby explains how to claim back what you're owed by HMRC

I read recently about people being overtaxed on pension withdrawals and think I might have some money to claim back from a drawdown payment made in July. How do I get my money back?

Paul



Tom Selby
AJ Bell
Senior Analyst says:

Unfortunately you are not alone. According to the latest HMRC data some £27 million was repaid to overtaxed savers between April and July 2020, equating to £3,560 per claim – a record high.

The total amount reclaimed by people overtaxed on pension withdrawals has now reached £627 million since April 2015.

This overtaxation occurs because when someone accesses their retirement pot 'flexibly' for the first time in a tax year, HMRC applies an emergency 'Month 1' tax code to the withdrawal. Flexibly accessing your pension includes taking income via drawdown or withdrawing ad-hoc lump sums.

HMRC's insistence on using a Month 1 tax code means your usual tax allowances will be divided by 12 and then applied to your withdrawal. It's probably easiest to show how this works

with a quick example.

Take someone who has no other taxable income and takes a £5,000 taxable withdrawal from their pension. Given the personal allowance for 2020/21 is £12,500, they might expect to pay 0% tax on the withdrawal.

However, because a Month 1 tax code is used this allowance is divided by 12 and then applied to the withdrawal (meaning only the first £1,042 will be taxed at 0%).

The basic-rate tax band of £37,500 is then also divided by 12 (giving a band of £3,125) and this part of the withdrawal is taxed at 20%. Finally, the remaining £833 will be taxed at 40%.

The net result is that, rather than paying £0 in tax, they will initially pay around £958.

GETTING THE MONEY BACK

If you are taking a steady stream of income via drawdown then you shouldn't need to take any action, as HMRC will adjust your tax code to ensure that over the

course of the year you are taxed the correct amount.

However, if you make a single withdrawal then you will either need to take action by filling out one of three forms, or rely on HMRC putting you in the correct position at the end of the tax year.

Which form you need to fill out will depend on how you have accessed your retirement pot:

- If you've emptied your pot by flexibly accessing your pension and are still working or receiving benefits, you should fill out form P53Z;
- If you've emptied your pot by flexibly accessing your pension and aren't working or receiving benefits, you should fill out form P50Z;
- If you've only flexibly accessed part of your pension pot then use form P55.

Provided you fill out the correct form HMRC says you should receive a refund of any overpaid tax within 30 days.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to editorial@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.

Managing your pension in your 50s

What to think about with your retirement pot in your sixth decade

As you enter your sixth decade you will be getting closer to the time at which you begin to wind down your career and start thinking seriously about retirement.

In the third part of this summer series, AJ Bell senior analyst Tom Selby looks at some of the key things pension savers in their 50s should be thinking about – including when and how to take a retirement income.

ACCESSING YOUR PENSION

If you're aged 55 or over then you have the option to access your defined contribution pension pot, with 25% available tax-free and the rest taxed in the same way as income. The point at which you can 'flexibly access' your pension is due to rise to 57 by 2028.

However, just because you can access your hard-earned retirement fund doesn't necessarily mean you should.

The earlier you access your pension, the longer it will potentially have to last for in retirement – and if you draw too much, too soon you will risk running out of money early.

To give you a rough idea of how far your pension pot might stretch, let's assume a saver with a £100,000 fund needs £5,000 a year from their fund to support their lifestyle, with the income going up each year in line with



2% expected inflation.

If they achieve investment returns of 4% after charges, their fund could be expected to last around 25 years. For someone taking an income from age 55, that implies they risk running out of money by age 80.

Given average life expectancy at age 55 is 84 for men and 87 for women, if they are in good health there is a fair chance they will spend their remaining years relying solely on the state pension. The flat-rate state pension is currently worth £175.20 a week or just over £9,000 a year.

Assuming life expectancy in the UK continues to rise there is a decent chance someone

in their 50s will live well into their 90s.

TAX CONSEQUENCES

You should also consider the impact accessing your pension will have on the tax you pay. If you opt for big withdrawals – or indeed plan to take your entire fund out in one go – you risk pushing yourself into a higher income tax bracket. By drip feeding withdrawals slowly, you can not only prolong the life of your pension but reduce the amount of tax you pay into the bargain.

Anyone accessing taxable income from their defined contribution pension needs to be aware of the impact of

the money purchase annual allowance (MPAA). If you access even £1 of taxable income flexibly from your fund, your annual allowance will be lowered from £40,000 to just £4,000.

Furthermore, you will lose the ability to 'carry forward' unused allowances from the three previous tax years. At worst, the MPAA will reduce your total available allowance in the current tax year, inclusive of carry forward, from £160,000 to £4,000.

Note that you won't trigger the MPAA if you buy an annuity, just take your 25% tax-free cash or take a 'small pots' withdrawal. A small pots withdrawal is where you fully extinguish a pension worth £10,000 or less, with 25% of the withdrawal tax-free and the rest taxed as income. You can make unlimited small pots withdrawals for occupational schemes and up to three withdrawals for non-occupational schemes (such as SIPP's).

CONSIDER CONSOLIDATING YOUR PENSIONS IN ONE PLACE

As your chosen retirement date edges closer, you might want to consider tracking down any old pensions you have and consolidating them with a single provider. The Government's [pension tracing service](#) is a good place to start, while plans are also afoot to build pensions dashboards which in the future could allow you to see all your retirement pots in one place online.

There are many good reasons to do this. Firstly, it is an opportunity to lower your charges, something which can have a profoundly positive



High earners and those with big pensions may face retirement complexity

A few of us may become exposed to the more complex parts of the pensions universe as we reach our 50s. These include the lifetime allowance and tapered annual allowance.

The lifetime allowance is a cap on the amount you can save in a pension over the course of your life and is currently set at £1,073,100. If you go over the lifetime allowance when accessing your pension you will pay a tax charge designed to return the tax relief you have received.

While most people enjoy a £40,000 pensions annual allowance, those with 'threshold' income above £200,000 and 'adjusted' income above £240,000 have their annual allowance reduced by £1 for every £2 of adjusted income earned above £240,000, to a minimum of £4,000 for those with adjusted income of £312,000 or more.

Note that both income measures include not just salary but other taxable income too. Threshold income also deducts any personal pension contributions, while adjusted income adds employer contributions.

Those with generous defined benefit entitlements, such as senior doctors, have been among those caught by the complexity of the taper. Again, if you breach your allowance the taxman will come for any tax relief you have received over and above your annual allowance.

Given how difficult this is to navigate, I would strongly recommend speaking to a regulated financial adviser if you think you are caught by either of these parts of the system.

impact on your retirement, particularly over the longer term.

Secondly, it is a lot easier to manage a single pension versus lot of different pots with different providers. You may also be able to access greater choice and flexibility by transferring, both in terms of the investments available and the withdrawal options open to you.

However, there are also reasons to be careful before

transferring your pensions. In particular, some older-style pensions have valuable guarantees attached which will be lost if you switch to a different provider, so make sure you check your documentation and speak to your existing provider before making a transfer.

In addition, some older policies also have exit fees which can make it expensive to move your money.

GET YOUR INVESTMENTS IN ORDER

If you're planning to access your pension in the next 5 or 10 years, you should start thinking about how you want to generate an income from your fund. Depending on the option you choose, this may have a big impact on how you invest your money.

A 55-year-old planning to stop working at 60 and use their entire fund to buy an annuity, for example, will likely want to reduce the amount of investment risk they are taking as they approach their chosen retirement date. The same could be said for those who plan to take their entire fund as cash.

Failing to do this would leave you a hostage to fortune because stock markets can be volatile, particularly over the short-term. The double-digit falls in fund values we saw as a result of Covid-19 in March and April are a perfect example of this.

If you're planning to stay invested in retirement and take an income via drawdown, it is worth reviewing your investments as you approach your retirement date. However, this may not necessitate a big change as your investment time horizon will be longer than someone planning to buy an annuity or take their fund as cash in one go.

If you have children and grandchildren consider building a nest egg for them too.

For lots of savers in their 50s the focus isn't just on their own savings but building a pot of money tax efficiently for their children and grandchildren as well.



If this is a priority there are two 'junior' versions of traditional savings products you could consider.

SAVING FOR THE KIDS AND GRANDKIDS

You can save up to £2,880 on your child's behalf in a Junior SIPP and it will be topped up automatically via pension tax relief to £3,600. The mechanics of tax relief are exactly the same as for an adult saver, just with a lower annual contribution limit.

In all other ways a Junior SIPP works in exactly the same way as a regular SIPP, with 25% of the pot available tax-free from age 55 (due to rise to age 57 in 2028) and the rest taxed in the same way as income.

The other main option is a Junior ISA. Junior ISAs received a significant boost at the latest Budget, with the annual allowance more than doubling from £4,368 to £9,000. Once your child reaches age 18 their Junior ISA will convert into an adult ISA and they will be able to access the money-tax-free.

The increase in the Junior ISA allowance means a parent who started saving in one for a newborn child could build a tax-free pot of more than £240,000 by the time their child reaches 18, assuming they

put the maximum in each year and it grows by 4% every year after charges.

If you have children or grandchildren aged 18-39 who want to get on the housing ladder, you could also consider funding a Lifetime ISA in their name.

All contributions up to £4,000 would benefit from an upfront bonus of 25% (up to a maximum of £1,000 per year), and your child or grandchild could withdraw the money tax-free to put towards a deposit on their first home.

Withdrawals are also tax-free when you reach age 60 or if you become terminally ill, but in other circumstances a 25% early withdrawal charge will be applied by the Government (note this has recently been reduced to 20% for the 2020/21 tax year, although the Government plans to increase it back to 25% for 2021/22 onwards).

COMING SOON

Don't miss next week's article, covering how people in their 60s and beyond should go about managing their pension.



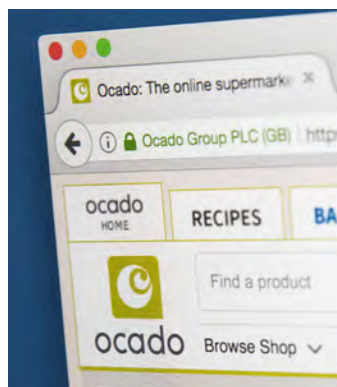
By Tom Selby
AJ Bell
Senior Analyst

KEY

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- **AIM**
- **Fund**
- **Investment Trust**
- **ETF**
- **Overseas Share**

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

24 August: Clipper Logistics, Studio Retail.

26 August: Creightons. **27 August:** Hays.

Half year results

21 August: Kingspan. **24 August:** Henry Boot.

25 August: Apax Global Alpha, Arrow Global, James Fisher & Sons, Polymetal International. **26 August:** Pharos Energy. **27 August:** Anglo Pacific, Chesnara, Grafton, MacFarlane, Puretech Health, WPP.

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