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Seven under the radar stocks paying more than 4% income

Companies delivering **good news** despite a tough backdrop

Opportunities and **threats** for the **gambling** sector

Discover the **Scottish small cap tech business** bucking negative market trends

Contents

Daniel **Coatsworth**

EDITOR'S VIEW

Many active managers have failed to justify their worth with UK income stocks

They are paid to beat the market, so why is a passive vehicle now a star performer?

Fund managers in general have not shone this year when it comes to the UK equity income sector, if you judge their performance using a certain benchmark.

I've looked at data from FE Fundinfo and found the top performer in the UK equity income space for funds was a tracker product, not one where a fund manager is actively picking what they believe to be the best stocks.

Vanguard FTSE UK Equity Income Index (B59G4H8) has a 9.8% total return from 1 January to 25 May, which is a combination of share price gains/losses and dividends. It tracks the performance of a basket of stocks from the FTSE 350 index which pay a dividend.

Investors pay a fee for a fund manager to beat the market and when this doesn't happen, it's only natural that people start to look more seriously at passive funds where fees are typically lower.

The Vanguard fund performance narrowly beat the actively managed **ASI UK High Income Equity (B7FTRJ8)** which has a 9.7% return year-to-date; but was considerably better than the likes of **Fidelity Moneybuilder Dividend (B3LNGT9)** which returned 4.8% and **Royal London UK Equity Income (B3M9JJ7)** with 0.7%.

Am I being unfair by saying fund managers haven't done well in this space? Probably. After all, a good handful of actively managed UK income funds have delivered a positive total return this year, which is better than large parts of the global equity market. I'm also comparing their performance to an index that isn't traditionally used as a benchmark for UK income.

Most funds fishing for the dividend opportunity on the UK market benchmark themselves against the IA UK Equity Income sector, albeit that's just the average of all funds in the sector. It has returned -0.9% year-to-date.

If you look at investment trusts for UK equity income, only one beat the Vanguard fund this year – **Value & Indexed Property Income Trust (VIP)** which returned 13.9%.

Close behind the Vanguard performance is **City of London Investment Trust (CTY)** with a 9.3% return – much better than we've seen from this company in recent years.

Funds shouldn't really be judged on a five-month period. Five years is a better way to tell which ones are outperforming because of skill rather than luck.

On a five-year basis, the Vanguard product ranks 34th out of 101 relevant active and passive funds and trusts. However, its 19% return did beat the investment trust UK equity income sector (18.8%) and Investment Association's UK equity income sector (14.9%).

So why have active managers lagged a passive fund this year? You could argue there isn't a market tailwind for them to ride and it's much harder to pick the select few stocks going up. Yet challenging market conditions should be when the best fund managers show their skills at clever stock picking.

They'll have to work harder, but once the markets settle down try find the ones that did well. These are the names to watch. I would certainly feel more comfortable parking my money with someone who can hold their own in a bad market than simply give it to anyone who automatically does well just because markets are rising.

Find out why market experts think a summer rally could be on the cards

FTSE 100, S&P 500 and Nasdaq enjoy best week in months as investors look for oversold stocks

Investors are buying stocks again prompting emerging hope of a summer rally off depressed valuations. The early part of last week saw $20.6 billion pour into equities with outflows from cash at $28.2 billion, according to Bank of America's top strategist Michael Hartnett.

That's the biggest show of optimism in 10 weeks, the strategist said in a note to clients. 'A summer rally bandwagon is growing,' Hartnett said as investors price in 'peak inflation' and expectations that the Federal Reserve won't become any more aggressive on its plan to lift interest rates.

The US central bank is trying to rein in high inflation by raising short-term rates, which is meant to curb economic demand. But Fed minutes on 25 May revealed that it might not implement any more rate hikes beyond those already planned, with some readings of the minutes even suggesting that rate hikes could slow down, as economic growth has already begun to ease.

Last week saw the S&P 500 index snap a run of seven consecutive weeks of losses, closing Friday (27 May) up more than 6% on the week at 4,158.24. The tech-heavy Nasdaq Composite closed 6.5% higher at 12,131.13, its highest since the start of May.

While investors that Bank of America's Hartnett has been talking to remain in bearish mood overall, the strategist pointed to the investment bank's Bull & Bear Indicator at 0.6, 'yielding an unambiguous contrarian buy signal,' Hartnett noted.

Bank of America's bull and bear indicator is in 'extreme bearish' territory, and Hartnett says there are many oversold assets relative to their 200-day averages, which make them primes for a tradeable bounce. Among them, the strategist listed the 30-year US Treasury, high yield bonds, Chinese and German stocks, US banks and tech stocks, consumer stocks in the US, European Union and China, and industrials in Europe.

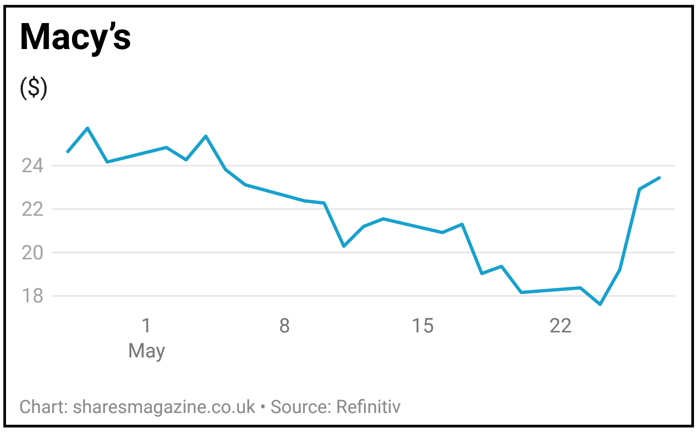
BofA Bull and Bear indicator

Source: BofA Global Investment Strategy

This cautious optimism for stock markets is reflected on both sides of the Atlantic. 'US investor sentiment bounced off its recent low from the previous week, to end last week still bearish but not as hopeless,' said Olivier d'Assier of Qontigo, the investment intelligence and index operator.

'European investor sentiment halted its decline of the previous week, returning to the (less) bearish levels of March, and ended last week only slightly negative.'

A more positive set of corporate earnings is helping lift sentiment, but d'Assier and his colleagues note that investors have implemented risk-averse strategies for the better part of 2021 on inflation concerns and have done so as well for all of 2022 so far. 'This prolonged popularity of risk-averse assets versus risk-tolerant ones, has made the former rather pricey and the latter potentially attractive again. This helps explain bouts of bargain-hunting among tech stocks,' said d'Assier.



First-quarter profits and sales from US department stores chain **Macy's (M:NYSE)** on 26 May came in ahead of analyst expectations as shoppers returned to malls to buy new outfits, luggage and luxury goods in spite of decades-high inflation that has threatened to curtail consumption.

The chain, which also owns Bloomingdale's, reaffirmed its fiscal 2022 sales outlook and raised its profit guidance, expecting stronger credit card revenue for the remainder of the year, sending the stock soaring 30% last week.

Similarly, discount retailer **Dollar Tree (DLTR:NASDAQ)** followed up a robust showing from some of its peers to suggest some of the concerns about US consumer spending may be overdone and investors moved to take advantage of what they perceived as oversold opportunities, a relief for the US retail sector following the recent earnings disappointment from **Target (TGT:NYSE)**.

In the UK, Rishi Sunak's controversial windfall tax on energy companies could help cap worries of sky-rocketing inflation increasing and give a similar lift to UK consumers. Earlier this month saw April retail sales unexpectedly rise as shoppers bought more alcohol from supermarkets, suggesting people are reacting to rising prices by staying at home rather than going out.

Between 23 May and 27 May the FTSE 100 posted its biggest weekly gain since March, closely tracking major US markets. [SF]

A windfall tax shock puts North Sea oil firms on the spot

Power generators spared for now but more measures could be on the way

THERE WERE TWO key takeaways for the energy sector from chancellor Rishi Sunak's cost of living measures (25 May). First the windfall tax – or 'temporary, targeted energy profits levy' – went further than the measures proposed by Labour.

Second, power generation firms are not out of the woods yet despite any announcement on a levy on their excess profit being delayed.

Ominously the Treasury is 'urgently evaluating' the situation and shares in the likes of **Drax (DRX)** and **SSE (SSE)** remained under pressure in the aftermath of Sunak's statement.

The new 25% tax on North Sea oil and gas profits, which will include 90% tax relief on investment in UK hydrocarbons extraction, could last for up to three years or until 'oil and gas prices return to historically more normal prices'.

While **BP (BP.)** and **Shell (SHEL)** intimated this could impact their UK spending plans, despite the accompanying relief, the North Sea is only a small part of their business and you would not expect them to respond to news of more onerous taxation by shrugging their shoulders.

The decision has more gravity for smaller, independent producers with the largest of these, **Harbour Energy (HBR)**, now down 25% since the start of May. [TS]

Supermarkets are hoping for a bumper Platinum Jubilee spending spree

Shoppers can expect lots of 'specials' as grocers try to boost sales

Supermarkets are keeping their fingers and toes firmly crossed that the weather stays nice for the Queen's Platinum Jubilee bank holiday and customers push the boat out on barbecue food and fizz.

According to analysts at Kantar, grocery sales for the 12 weeks to the middle of May were less dire than the previous month but they still weren't pretty.

Volume sales were down by double digits compared with this time last year while food price inflation is currently running at 7%, its highest level since 2009.

In its survey of more than 9,000 shoppers, Kantar said almost a quarter of households described themselves as 'struggling to make ends meet', with food prices a concern for nine out of 10 people.

Only a third of consumers considered themselves to be in a 'comfortable' financial position, with 43% of households saying they were 'managing'.

Nowhere is this more obvious than at the tills, where shoppers are managing their budgets by deserting many of the big supermarkets.

Only **Tesco (TSCO)** has managed to retain customers, mainly due to its low pricing and its Clubcard offers, with sales to the middle of May down 3.1% compared with a 4.4% drop for the overall market.

Sainsbury's (SBRY), Asda and Morrisons all fared far worse, with sales down 6.7%, 8.7% and 9.5% respectively, while Aldi and Lidl both saw their sales grow by around 6%.

In terms of market share, Tesco has gained ground slightly compared with 2021 to take 27.4% of grocery spending, but Sainsbury's, Asda and Morrisons have all lost ground with Asda suffering the most by some way.

In contrast, Aldi and Lidl now represent 15.9% of the market compared with 14.3% this time a year ago and jointly account for a greater share than any retailer bar Tesco.

Meanwhile, the whole sector is pinning its hopes on four days of celebrations to boost its fortunes this bank holiday weekend.

'Looking back at the Diamond Jubilee in 2012, we saw a 10% boost in supermarket sales during the week leading up to the festivities. We should never underestimate the appetite for a party, especially a royal one,' says Fraser McKevitt, Kantar's head of retail and consumer insight.

'Summer refreshments were top of the shopping list and both alcohol and soft drink sales shot up. Beer sales rose by 23%, sparkling wine sales more than doubled, and colas grew by 17%.

'Just like 10 years ago, we expect barbeques to be fired up across the country and drive demand for anything that goes on the grill. In classic Jubilee style, indulgent desserts are also expected to prove popular this year,' he adds. [IC]

ANGLE shares surge 58% after gaining US regulatory approval

ANGLE's Parsortix technology can identify 31 different types of cancer cells

After six long years of gathering data and evidence **ANGLE's (AGL:AIM)** liquid biopsy platform Parsortix was given regulatory approval from the US Federal Drug Administration for use in the detection of metastatic breast cancer.

Although it has been a long wait for investors FDA approval is a significant milestone for ANGLE and has the potential to unlock a multi-billion market opportunity.

FDA approval de-risks uncertainty priced into the shares which surged 58% on the day of the announcement (25 May).

Taking tissue biopsies is expensive and bears the risks of side-effects and often the type of cancer is misdiagnosed.

The Parsortix system extracts circulating cancer cells from a simple blood sample, reducing the cost, complexity, and risks of diagnosing cancers.

Berenberg's analysts believe validation of the technology will increase the number of clinical studies into different cancers as well as accelerate the company's pharmaceutical services franchise. Here, cancer cells are extracted to gain insights in drug trials.

Demonstrating the momentum, ANGLE announced (30 May) it has signed a clinical study agreement with Solaris Health, the largest US urology network comprising 179 clinics.

Berenberg said the high-profile deal should give ANGLE 'significant commercial muscle' to market the Parsortix system for prostate cancer.

The investment bank estimates prostate cancer is ANGLE's largest addressable market worth around $5 billion in the US alone. [MGam]

Why Authentic Brands is favourite to bag Ted Baker

Forever21-to-Brooks Brothers owner coveting quirky British fashion brand as Missguided enters administration

NEW YORK-BASED Authentic Brands has emerged as the frontrunner to buy quirky British fashion brand **Ted Baker (TED)** and is reportedly being advised by Bank of America on a £300 million takeover deal.

Sky News reports that Authentic Brands, which owns Brooks Brothers, Forever21 and Reebok, is willing to pay more than 150p for loss-making Ted Baker, which announced (26 May 2022) 20% sales growth for the first quarter to 22 April 2022 supported by a steady return to the office and social events. Talks between Authentic Brands and Ted Baker are not exclusive but it is thought a formal deal could be signed within weeks.

Elsewhere in the retail sector, deal-hungry **Boohoo's (BOO:AIM)** rumoured pre-pack rescue deal for online fast fashion rival Missguided didn't materialise as the latter entered administration.

Boohoo, which has seen growth dry-up and costs surge, may still be a bidder for Missguided's assets and could face competition from retailers including **JD Sports Fashion (JD.)**, **Frasers (FRAS)**, Asda and Chinese ultra-fast fashion retailer Shein. [JC]

The sell-off in biotech has gone too far, here's how to take advantage

Managers of International Biotechnology trust see a compelling opportunity to tap innovation at attractive prices

INTERNATIONAL BIOTECHNOLOGY TRUST
BUY
(IBT) 620.1p
Market cap: £253.5 million

The brutal sell-off in biotechnology stocks has presented an opportunity for well-positioned specialist managers to exploit rare bargains in a sector which has historically outperformed the market.

We believe the **International Biotechnology Trust (IBT)** is a great way to get low risk exposure to this exciting space.

The trust trades at a slight discount to net asset value (NAV) and unusually in the sector, offers an attractive 5.3% dividend yield.

OPPORTUNITY KNOCKS

The key drivers behind the biotechnology sector's long-term outperformance remain firmly in place. Ageing global populations are increasing demand for new drugs and spending on healthcare.

In addition, the pandemic has increased the pace of scientific innovation and the number of new drugs getting approved.

It is therefore rather surprising that the Nasdaq Biotechnology index is 30% lower than its peak in September 2021 and effectively trading back at pre-pandemic levels.

The valuation of the sector peaked in the spring of 2021 according to IBT's joint lead managers Ailsa Craig and Marek Poszepczynski.

The managers commented: 'While the biotech sector has suffered a long and historic retraction since its highs of spring 2021, the current valuations in the sector pose a compelling opportunity to tap exciting innovation at highly attractive prices – particularly within smaller players in the space, many of which are trading at a fraction of their valuations a year ago.'

Craig and Poszepczynsk have seen these cycles before and the acceleration of selling in recent weeks has got the managers pondering whether we are

International Biotechnology Trust top 10 holdings

	%
Neurocrine	5.5%
Horizon	5.4%
Incyte	5.4%
Ultragenyx	5.0%
Biohaven	4.9%
Amgen	4.7%
Illumina	4.3%
Mirati	3.9%
Argenx	3.3%
Seagen	3.0%
Total	**45.4%**

Table: sharesmagazine.co.uk • Source: International Biotechnology Trust. Data at 30 April 2022 seeing capitulation.

One possible sign that things have become extreme is a resurgence in merger and acquisition activity.

In early May 2022 the trust was a beneficiary of **Pfizer's (PFE:NYSE)** acquisition of biotech firm **Biohaven (BHVN:NYSE)** which was pitched at a 74% premium to the undisturbed price.

Biohaven represented 5.2% of IBT's NAV which resulted in a 3.6% uplift in valuation for shareholders. The managers have been positioning the portfolio for an increase in mergers and acquisitions for some months.

The trust has benefited from takeovers of portfolio companies Acceleron, Vifor Pharma, Arena Pharmaceuticals and Zogenix which all received offers at a high premium to the share price.

A DIFFERENTIATED APPROACH

The trust is managed by an experienced team which has been investing in the sector for 30 years. One of the biggest risks of investing in biotech is the uncertainty of successful clinical trials.

IBT mitigates these risks by reducing exposures ahead of key clinical data releases. In addition, the team uses proprietary valuation techniques to reduce positions where the risk/reward is considered unattractive.

Another important part of risk management is the diversification across companies in different stages of development. The biotechnology index is dominated by smaller companies at the riskier end of the spectrum.

Net asset value by therapeutic area

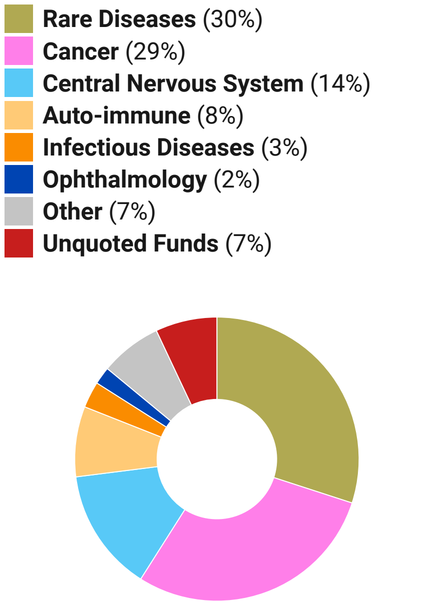


Chart: sharesmagazine.co.uk • Source: International Biotechnology Trust. Data at 30 April 2022

IBT deploys around 60% of the portfolio into either profitable or revenue growth companies. That is, companies with a commercially available drug on the market.

The rest of the portfolio is in earlier stage companies. The managers point out that many of these are trading at, or below, cash values.

'We are excited about new technologies emerging in oncology and rare diseases – which are less sensitive to price regulations, as they address high unmet medical need.'

The portfolio is skewed towards therapeutic areas which have higher pricing power. This has become a more important aspect in recent months as inflationary pressures have surfaced.

Generally, the healthcare sector is more resilient to rising inflation because medical costs are not discretionary expenditures.

UNQUOTED ATTRACTIONS

Another attractive feature of the trust is its allocation to unquoted private companies. This feature gives investors exposure to otherwise inaccessible investments including venture funds.

It gives the managers a better understanding of developing trends and technologies. This part of the fund also provides some protections during heightened market volatility.

The unquoted investments represent around 7% of the portfolio.

They are overseen by Kate Bingham who is a managing partner of SV Health Managers LLP, the investment advisor.

Bingham was appointed chair of the UK Vaccine Task Force was given significant credit for the success of the UK's vaccine strategy.

Over the last choppy six months the trust's shares are down 9.7% compared with a 15% drop in the biotechnology index. Over the last five years the shares are up 34% compared with a 28% gain for the index.

The trust has an ongoing charge of 1.2% a year. [MGam]

International Biotechnology Trust

Chart: sharesmagazine.co.uk • Source: Refinitiv

Why the sell-off at JD Sports is an unmissable buying opportunity

Consumer spending concerns and Cowgill exit leave retailer at a whopping discount relative to recent history

JD SPORTS
BUY
(JD.) 119.7p
Market cap: £6.15 billion

A sell-off at **JD Sports Fashion (JD.)** presents bargain hunters with an opportunity to bag shares in a high-class retailer at a valuation not seen for years.

While it faces inflationary pressures and a consumer spending squeeze, the trainers-to-tracksuits seller has proven pedigree in navigating sector headwinds and boasts strong relationships with globally-recognised and sought-after brands such as Nike, Adidas and Puma.

The year-to-date de-rating also discounts a huge international growth opportunity ahead for JD Sports, particularly in the world's largest athleisure market, the US, following the acquisitions of The Finish Line, Shoe Palace and DTLR in recent years.

RARE SHARE PRICE STUMBLE

Shares in JD Sports Fashion, the FTSE 100 company which also caters to outdoor lifestyle fans through brands including Blacks, Millets and Go Outdoors, have de-rated on concerns over consumer spending and latterly, the surprise departure of long-serving boss and executive

chairman Peter Cowgill.

Instrumental to JD Sports' success, Cowgill was reportedly resistant to the board's efforts to address corporate governance concerns and his departure brings an amazingly successful tenure to an end; Cowgill helped the sports, fashion and outdoor brands retailer to be among the best performing names on the stock market.

MOMENTUM AT ITS HEELS

While change at the top creates uncertainty, there will be no shortage of first-rate retail operators looking to take the reins at JD Sports and the fundamentals of the business remain robust, with its proven strategy working and momentum at its heels.

In its latest positive update, the self-styled 'king of trainers' delivered another profit upgrade in the face of a global shortfall in the supply of 'certain key footwear styles', reporting like-for-like sales up 5% in the 14 weeks to 7 May 2022 thanks to the strength of its brand relationships and winning product offering.

Well-managed with attractive gross margins and excellent cash generation, the retailer expects headline pre-tax profits for the year to January 2023 will 'at least be equal' to the £940 million it will shortly report for the year to January 2022.

Cash winging its way into the pockets of hard-pressed consumers following Rishi Sunak's 'windfall tax' should support athleisure spending. And the fact a high proportion of sneaker-loving youths still live at home should shield them from the worst ravages of the cost-of-living crisis.

For the financial years to January 2023 and 2024, Shore Capital's adjusted pre-tax profit forecasts of £876.7 million and £958.3 million translate into earnings per share of 11.7p and 12.4p respectively.

Based on these estimates, JD Sports trades on prospective price to earnings (PE) multiples of 10.2 and 9.7 for this year and next, an unmissable discount to 2021's peak PE ratio of 33 times. [JC]

JD Sports

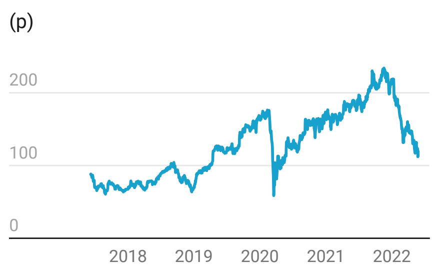


Chart: sharesmagazine.co.uk • Source: Refinitiv


SIPPs | ISAs | Funds | Shares
AJBell
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RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
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Recommended Provider Which? Self-Invested Personal Pensions July 2020
THE TIMES money mentor CUSTOMER EXPERIENCE RATING Investing & Pensions GOLD AWARD Autumn 2020
Capital at risk.
Pension rules apply.

MARKS & SPENCER
(MKS) 152p

Loss to date: 14.9%
Original entry point:
Buy at 178.5p, 2 September 2021

With all that has happened since September last year and the swathe of disappointments across the consumer discretionary sector we are pleased with **Marks & Spencer's (MKS)** performance against the odds.

Sales for the year to the start of April were £10.88 billion, up 18.7% on the previous year and nearly 7% above pre-pandemic levels.

Meanwhile, operating profits trebled to £709 million, 20% above pre-pandemic levels, demonstrating how much progress the firm has made in lowering costs and improving margins.

Outgoing chief executive Steve Rowe was understandably chuffed: 'For me, what is important about these results is not just the restoration of profit and strong cash flow; it is that they demonstrate that M&S has fundamentally changed.'

The food division delivered a 10.1% increase in revenues and has been transformed into a high-performing business with market-leading like-for-like sales growth on a 12-month basis.

Clothing and home, long the weakest division, actually delivered a 3.8% increase in revenues driven by a more than 50% increase in online sales.

The number of lines has been dramatically reduced and discounting has halved, improving the brand perception and putting the business 'on track for a more profitable model capable of growth'.

'While there is much more to do, the business has moved beyond proving its relevance and has the opportunity for substantial future growth', said Rowe.

Trading in the first six weeks of the new financial year has been ahead of last year, which is encouraging, with a 'particularly strong' showing in clothing and home.

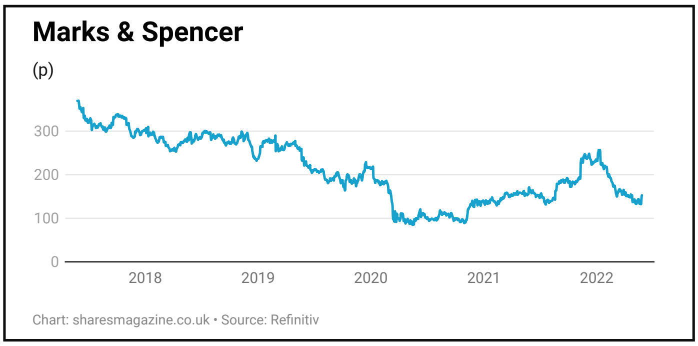
However, with input prices rising, pressure on consumers, no business relief on its UK

operations or any income from Russia, profits aren't going to grow this year, especially if the new management team wants to keep investing.

Also, while the half-share in the Ocado Retail joint venture made a small contribution to earnings last year, the business lowered its sales and profit forecasts for this year on the back of the weak consumer environment which was hardly a great surprise

Nevertheless, says Rowe, 'with improved profitability and cash conversion, and financial net debt under a third of 2019/20 levels, the business is resilient to the macroeconomic headwinds while having flexibility to invest in our transformation priorities'.

Clive Black, head of research at house broker Shore Capital, believes Marks & Spencer's shares have been pricing in 'a major profit warning', and notes the shares are on 8.5 times this year's earnings.



SHARES SAYS:
We're sticking with our call and would buy more at these levels. [IC]

HENRY BOOT
(BOOT) 325p

Gain to date: 12.6%
Original entry point:
Buy at 281p, 30 September 2021

THERE IS NEVER a dull moment at property, land and construction group **Henry Boot (BOOT)**.

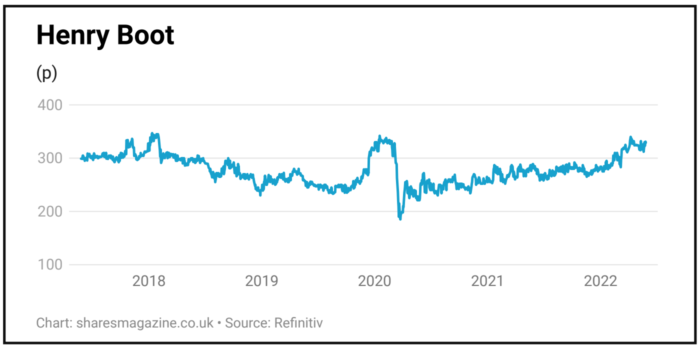
Having raised its full-year earnings guidance in January, the firm proceeded to trump expectations in March and said it was enjoying a strong start to the year.

In fact, the construction business had already covered its 2022 budgeted order book by March, and in last week's trading update the firm said its Hallam Land business would also hit its target for the year early thanks to the sale of plots to **Taylor Wimpey (TW.)** and **Persimmon (PSN)**.

The development division has also made 'a good start' to the year with around three quarters of projects already either pre-let or pre-sold, and is bringing schemes forward from its development pipeline early to meet demand.

Meanwhile, Stonebridge Homes has secured 93% of its full year delivery target of 200 homes and the construction division is already taking orders for 2023.

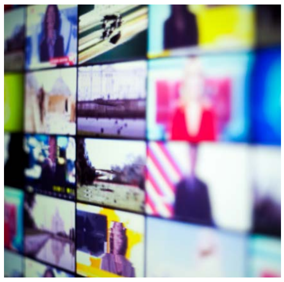
Results are likely to be weighted towards the first half due to a number of 'significant' transactions, and, while the second half will still see high levels of activity, many of these deals will come to fruition next year due to longer lead times.



SHARES SAYS:
Keep buying. [IC]

FDM
(FDM) 987p

Loss to date: 16.9%
Original entry point:
Buy at £11.88, 20 January 2022



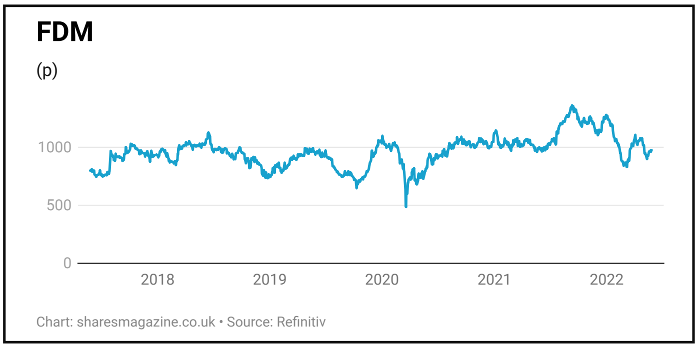
IT CONTRACTING SERVICES outfit **FDM (FDM)** may have been a disappointing performer in share price terms since we flagged its appeal in January but the company is doing well from an operational perspective.

As a reminder FDM operates a 'Mounties' model, training up IT consultants or Mounties in return for their services which it then contracts out to clients in industries like finance and insurance.

A trading update to accompany the company's AGM on 24 May revealed 'record levels of activity' with 4,429 consultants assigned to clients compared with a smidge over 4,000 at the start of the year.

The company is responding to high levels of demand by recruiting more consultants and internal staff.

Shore Capital analyst Gareth Evans commented: 'Most pleasing to us is the North American performance, where both Canada and the US have delivered well – this has been a key area of concern for investors given recent disappointment, and it is a major positive to see a strong recovery.'



SHARES SAYS:
We think FDM is extremely well placed in the current environment and would take advantage of any weakness to purchase more shares. [TS]

ADVERTISING PROMOTION

Fidelity INTERNATIONAL

Fidelity China Special Situations PLC

An AJ Bell Select List Investment Trust

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

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

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

China's growth story

Since its launch in 2010, the trust has offered direct exposure to China's growth story; from tech giants right the way through to entrepreneurial medium and small-sized companies, and even new businesses which are yet to launch on the stock market. Portfolio manager Dale Nicholls looks to identify and invest in companies that are best placed to capitalise on China's incredible transformation.

Investing in China's most compelling growth drivers

Dale believes a vast and still expanding middle class is increasingly driving stock market returns in China.

"China is well established now as a major driver of growth and investment performance, not just in Asia, but in the wider world. The sheer size of China's economy, its continued growth and ever-increasing global importance, should see investors increase their exposure to China as part of a balanced investment portfolio."

Past performance

	Apr 2017 - Apr 2018	Apr 2018 - Apr 2019	Apr 2019 - Apr 2020	Apr 2020 - Apr 2021	Apr 2021 - Apr 2022
Net Asset Value	24.4%	-3.4%	-0.4%	74.4%	-39.2%
Share Price	26.1%	2.0%	-4.7%	93.5%	-41.6%
MSCI China Index	27.1%	1.3%	1.2%	24.8%	-29.6%

Past performance is not a reliable indicator of future returns

Source: Morningstar as at 30.04.2022, bid-bid, net income reinvested. ©2022 Morningstar Inc. All rights reserved. The MSCI China Index is a comparative index of the investment trust.

Important information

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The Trust can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility.

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Plenty of companies are issuing good news despite the difficult backdrop

While many stocks have fallen this year the message from management is often not as bleak

With markets being buffeted by concerns over rising inflation and slowing growth – the dreaded 'stagflation' – and nothing but negative headlines it's easy to be despondent about the outlook for UK businesses.

Yet, having scanned all the company announcements of the last couple of weeks, it's clear there are still dozens of firms which are optimistic about trading and/or are raising their forecasts for 2022.

Most are business-to-business companies, although we did manage to find a handful of consumer-facing firms who are positive despite the cost-of-living crisis.

TRUSTED SUPPLIERS

The key to a good business, especially in times such as these, is being able to provide a key product or service which customers can't do without and are willing to pay up for if necessary.

With house prices still rising at double-digit rates and demand for new homes defying expectations, suppliers of goods such as bricks, tiles, UPVC windows and door fittings have every reason to be positive about the future.

Similarly, with demand for warehouse space far outstripping supply, the whole logistics chain from firms which undertake groundworks and those which build the structures to those which deliver the goods are optimistic about their prospects.

The ultimate service business right now must be software, given the need for companies to keep up with their customers who increasingly expect to be able to interact online in the first instance.

Whether you run a gaming company, an auction house, a marketing business or even a theme park, your software must be of the highest quality to provide a seamless end-to-end experience for customers – and suppliers, where necessary.

MAGIC INGREDIENTS

The best industrial companies are those which make a particular product which no-one else can replicate and which is essential for the manufacture of other products.

In analyst-speak, that gives them a very wide economic 'moat', which is positive for profit margins and shareholders.

A classic case is specialty chemicals firm **Croda (CRDA)**, which makes and supplies 'magic ingredients' for the consumer care sector, including beauty, home care, fragrances and flavours.

Without Croda's products, makers of some of the best-known personal care and beauty brands would be unable to bring their own products to market, meaning it has tremendous pricing power.

This means it can charge more for its products without causing a big drop-off in demand.

The firm doesn't shout about it, but its latest trading update included the comment: 'Significant input cost inflation has continued to be successfully recovered.'

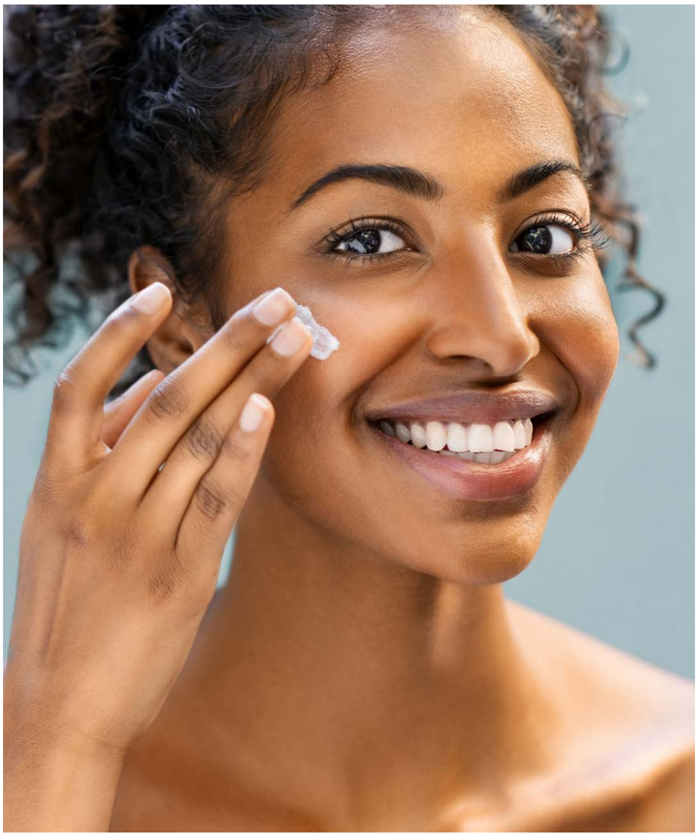
Croda is also a major player in the life sciences industry, from ingredients for life-saving drugs to higher-yielding crop additives and, more recently, the world of vaccines.

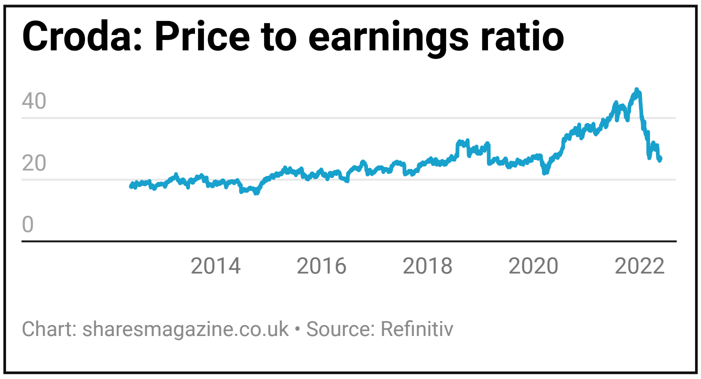
In 2020, Croda bought Avanti, one of the world leaders in the production of lipid nanoparticles (LNPs), which are essential for the delivery of mRNA vaccines including Covid treatments.

Avanti couldn't make LNPs at scale, but Croda can, and in late 2020 it signed a supply deal with US pharma giant **Pfizer (PFE:NYSE)** which at the time was worth an estimated $125 million annually.

In the event, Croda's 'lipid systems platform' booked $200 million of sales last year and this year it is investing tens of millions to expand production.

The market doesn't seem to be giving Croda any credit for its ability to keep issuing good news, given how its share price is down by a third year-to-date. This is particularly odd when you consider its latest full-year numbers show growth in sales, profits, profit margins and dividends.





One explanation is that its shares were highly rated last year, and the market is no longer prepared to pay high multiples of earnings, hence we've seen a de-rating in its stock. The accompanying chart shows how the shares were trading on nearly 50 times earnings at the start of 2022, yet they've since come down to a PE of just under 27 which is nearly back to the levels generally seen between 2015 and early 2020.

The valuation is starting to more reasonable, and the company is issuing a lot of good news so investors need to decide what price they would be prepared to pay for a business with Croda's credentials.

FEW CONSUMER WINNERS

Understandably, given the squeeze on household budgets from rocketing fuel and food prices, not many consumer-facing companies are talking up their prospects right now.

Food, drink and tobacco are among the few areas where consumption is likely to remain steady, with tobacco obviously benefitting from its addictiveness.

Imperial Brands (IMB) described its first-half performance as 'strong' and said it was on track to deliver on its full-year targets thanks to market share gains in its combustibles business and smaller losses in new products.

AIM bedfellows **Artisanal Spirits (ART:AIM)** and **Fevertree Drinks (FEVR:AIM)** both put out upbeat trading statements recently.

Artisanal Spirits said 'positive momentum' had continued since its previous update in March, and membership growth – a lead indicator for future sales growth – was ahead of management expectations.

Meanwhile, Fevertree said it was 'not only confident in the long-term prospects for the brand, but also of delivering another good performance this year'.

A SLICE OF CAKE

Mr Kipling-maker **Premier Foods (PFD)** beat its own recently-raised forecasts, thanks to strong branded growth driving volume and value market share gains and promised 'further good progress' over the next 12 months.

Premier Foods

Chart: sharesmagazine.co.uk • Source: Refinitiv

In the media sector, magazine publisher **Future (FUTR)** has provided a rare ray of light, delivering a 'modest' upgrade to its full-year guidance thanks to an 'excellent' first six months of its financial year and 'positive audience momentum' in the second half.

Finally, in the travel and leisure sector, low-cost airline **EasyJet (EZJ)** predicted it would return to 'near-2019 flying levels' this summer and said it looked forward to 'competing with its renewed strengths as a winner in the post-pandemic recovery'.

Also, pub group **Young's (YNGA:AIM)** said it had made 'a great start' to the new financial year with sales performing 'extremely well' since March, and it hoped to break more records over the Jubilee weekend.

By **Ian Conway** Companies Editor

Business-to-business companies on the UK stock market issuing good news

Part 1

Company	Sector	Comments
Accesso	Software & Services	very pleased with the start to 2022', 'our technology is a must-have for attraction operators'
Auction Technology	Software & Services	incredibly excited by the future', 'very well placed to deliver against growth opportunities ahead'
Bytes Technology	Software & Services	record set of results', 'well placed to capitalise on the exciting opportunities ahead'
Calnex	IT Hardware & Services	continued high demand', 'record order book', 'confident of another successful year of growth'
Centralnic	Software & Services	strong start to the year', 'organic growth reaching 51%', 'will materially exceed market expectations'
Croda	Specialty Chemicals	strong trading with continued sales and profit growth', 'robust market conditions', 'continuing expansion'
Diploma	Distribution	confident in materially upgraded guidance', 'strong organic growth and margins', 'H2 started really well'
Epwin	Building Materials	continued strong trading', 'expect to to make further market share gains', 'long-term growth drivers'
Equals	Financial Services	significant growth has continued', 'confident EBITDA will be ahead of market expectations'

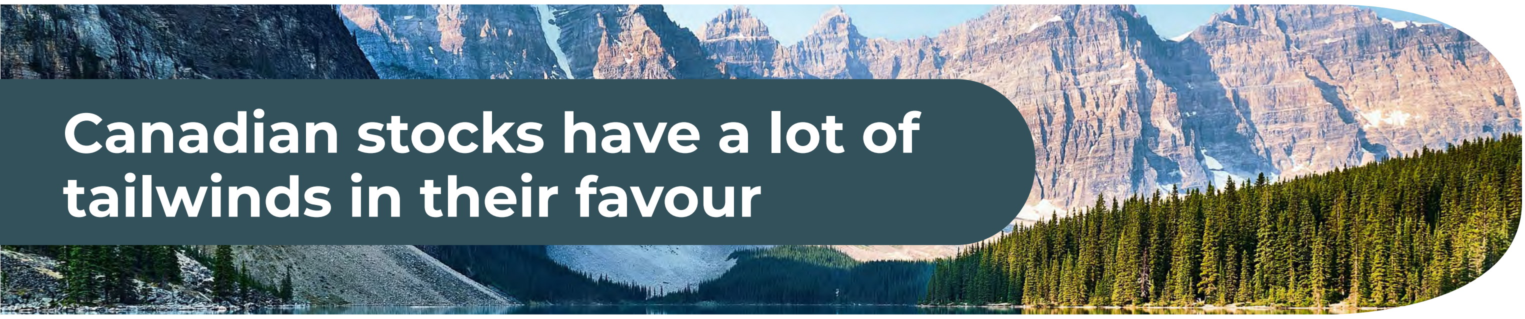
Table: Sharesmagazine.co.uk • Source: Sharesmagazine.co.uk, company reports. Based on most recent trading updates or financial results

Business-to-business companies on the UK stock market issuing good news

Part 2

Company	Sector	Comments
Euromoney	Business Services	subscriptions grew strongly', 'met our target early', 'results ahead of the board's expectations'
Forterra	Building Products	strong trading continued', 'sales volumes ahead of plan', 'full year materially ahead of expectations'
FRP Advisory	Business Services	strong performance', 'revenues and EBITDA ahead of consensus', 'strong pipeline'
Gamma Communications	Business Services	positive momentum to continue', 'new project wins will drive growth', 'very positive prospects'
Harworth	Infrastructure	continued strong operational momentum', 'strong market drivers', 'robust demand'
Hill & Smith	Infrastructure	positive trading', 'robust demand across the portfolio', 'strong market growth drivers'
Hyve	Business Services	strong momentum to continue', 'events recovering faster than anticipated', 'renewed confidence'
Kainos	Software & Services	very strong performance', 'demand has never been higher', 'scale and capability growing at pace'
Pebble	Business Services	strong performance', 'positive trajectory', 'confident in our strategy to scale the business'
Pelatro	Software & Services	significant increase in revenue', 'substantial order book', 'every confidence for 2022 and beyond'
Qinetiq	Aerospace & Defence	excellent revenue growth', 'robust order backlog', 'on track to deliver sustainable growth'
Renew	Infrastructure	record half-year results', 'second half started well', 'strong market positions'
Restore	Business Services	strong 1H momentum continued', 'run-rate revenue expanded', 'strong demand for integrated services'
Smiths Group	Aerospace & Defence	built on strong 1H', 'strong order intake', 'ongoing sales momentum'
Sureserve	Heating Services	continued momentum with high revenue visibility', 'new contract wins and extensions'
Tritax Eurobox	Warehousing	strong financial performance', 'attractive and sustainable rental growth', 'strong resilient portfolio'
Tyman	Building Products	strong underlying demand and order book', 'housing demand continuing to outstrip supply'
Van Elle	Infrastructure	elevated levels of demand in our core markets', 'increasingly confident of mid-term financial targets'
Volution	Building Materials	'growth rates have accelerated', 'expect earnings to be towards the upper end of market expectations'
Warehouse REIT	Warehousing	strong and diverse occupier demand', 'significant rental growth', 'unprecedented market conditions'
Wincanton	Distribution	good momentum in new business pipeline', 'confident in future growth opportunities'

Table: Sharesmagazine.co.uk • Source: Sharesmagazine.co.uk, company reports. Based on most recent trading updates or financial results



Canadian stocks have a lot of tailwinds in their favour

Trusts like MCT may benefit from rising prices and an economic bounce back…

It hasn't been an auspicious few months for equity investors. Rising inflation and instability caused by the war in Ukraine have combined to make it feel as though the best option may be to buy gold and, like Samuel Pepys all the way back in 1667, bury it somewhere in your garden for safekeeping.

Even if the impulse driving such behaviour is understandable given the circumstances, it's not entirely warranted. The mix of inflation and political instability may harm some companies and regions but not all of them.

Firms active in the commodities, financial services, and property sectors are typically better able to manage the pressures that inflation brings by raising prices in line with currency devaluation. In some instances, like banks being able to levy higher interest rates on lending services, they may even benefit from it.

Wars do tend to last longer than we anticipate and spread in ways that are hard to predict. Nonetheless, simply having less geographic proximity to the fighting means the risk of being drawn into the conflict or impacted by its side effects is reduced. And as with higher inflation, there are companies – like energy exporters – that could stand to benefit from any shortages resulting from the conflict in Europe.

Canada is in something of a sweet spot in both of these areas. The country is a net energy exporter, with substantial oil and gas reserves. It is also a major soft commodities producer, with Canadian farmers currently the world's fourth-largest wheat exporters.

Toronto's equity market reflects this dynamic. At the end of April the S&P/TSX Composite had a 17.6% weighting to energy companies, 13.3% to materials, and 11.6% to industrials. By comparison, the S&P 500 only had a 4.2% weighting to energy, 2.8% to materials, and 8% to industrials.

Investors that are interested in getting some exposure to Canada may want to look at **Middlefield Canadian Income (MCT)**. The trust invests in Canadian companies, with the objective of delivering a high level of dividends to shareholders, along with long-term capital growth.

The portfolio is currently overweight to energy and utilities companies, both of which support the trust's income objectives but also look able to take advantage of rising commodities prices and manage the effects of inflation.

The trust also has a large exposure to financials, which made up close to 25% of the portfolio at the end of March. For instance, TD Bank, Bank of Nova Scotia, and Bank of Montreal were among the five largest holdings at the end of March.

One of the added benefits of holding many of the companies in the portfolio is that they do a huge amount of business in the US. TD Bank, for example, is currently the sixth-largest bank operating in Canada's southern neighbour.

But even as they take advantage of the world's largest economy, Canadian stocks tend to trade at substantially cheaper valuations than their US peers. Investors thus get exposure to the US, without having to pay US prices.

Looking forward, a couple of other tailwinds may work in MCT's favour. One is that the Canadian economy has been slower to open up in the wake of the pandemic. Vaccine distribution took longer than in other countries, like the US or UK, which meant the economy experienced less of an economic bounce back.

That does look to be on the cards, as the country has seen close to 12 consecutive months of growth in its gross domestic product. Along with a potential boost via higher energy prices, it seems plausible this will give a lift to MCT.

Despite these positive tailwinds, the trust continues to trade at a wide discount to its net asset value. This stood at just over 12% in mid-May, after tightening from a low of close to 25% in February. This may still prove an attractive entry point for prospective investors, with the potential for additional capital growth if the discount tightens, alongside any produced by the trust's underlying portfolio.

Again, this is not a guarantee of success. There are never any silver bullets when it comes to investing and what may be the optimal decision today might not seem like it tomorrow. Still, in the current circumstances Canada-focused trusts like MCT may make for a very interesting option.

Click **here** to read our latest research on Middlefield Canadian Income…

KER-CHING!

Seven under the radar stocks paying more than 4% income

Investors are increasingly looking for stocks, bonds or funds that pay a good income.

Dividends or bond coupons provide positive returns which are particularly attractive in a more challenging market such as now.

Many people have this year lost money from backing high-growth but dividend-less stocks such as **Tesla (TSLA:NASDQ)** and **Netflix (NFLX:NASDAQ)**, and they're fed up.

In the other side of the ring, tobacco manufacturers, utility providers and mining stocks are currently winning the fight. They're all big dividend payers, and plenty of investors are playing catch-up, wishing they'd bought these income investments sooner.

A lot of investors have relied on the US market for big returns over the past decade. They may find that's not the best hunting ground when it comes to income. The S&P 500 index currently trades on a prospective dividend yield of 2.2%, according to SharePad.

In contrast, UK stocks might be a better place to look for income. The FTSE 100 and FTSE 250 offer prospective dividend yields of 3.4% and 3.5% respectively, and it's easy to find individual stocks yielding a lot more.

With interest rates creeping higher, cash is becoming more competitive for returns. There are fixed-rate cash savings accounts now offering superior rates of interest than you'd get from the S&P 500 equity index for instance.

However, dividends have proved to be a reliable source of income growth over the long run and the growth they offer means they provide a hedge against inflation which cash savings simply do not.

If you are putting money to work in equities, try and look for premium yield to that on offer from the broader markets or a cash savings account, say at least 4%.

Your first port of call might be to hunt around the FTSE 100 index, home to many a dividend-paying stalwart, although the blue chips have already been discovered by investors and are typically mature businesses with pedestrian dividend growth rates.

Therefore, it might be worth considering smaller stocks or funds which remain largely overlooked by investors. There is plenty of choice for sustainable dividends and an attractive level of income, and that's the focus of the investment ideas in this article.

For small caps, we have screened the market for companies valued at between £20 million and £600 million, offering a minimum yield of 3.5% based on their most recent financial year and a minimum prospective yield of 4% based on forecast payments for the next one and two years.

We have also scoured the investment trust universe for companies offering a minimum yield of 3.5% based on the most recent financial year and a 4% minimum based on their expected payments for the next two years.

And to ensure we aren't missing out on any hidden gems, *Shares* has also enlisted the help of some fund managers and research experts for some of their income favourites. Here are six ideas covering a range of asset classes and sectors, all generating attractive levels of income for investors. [JC]

Seven income investment ideas

Stock	Prospective yield
Kitwave	4.9%
Assura	4.4%
Regional REIT	7.6%
Watkin Jones	5.0%
XPS Pensions	5.3%
Invesco Bond Income Plus	6.5%
JP Morgan Multi Asset Growth & Income	4.4%

Table: sharesmagazine.co.uk

Kitwave (KITW:AIM) 159.75p

Prospective dividend yield: 4.9%

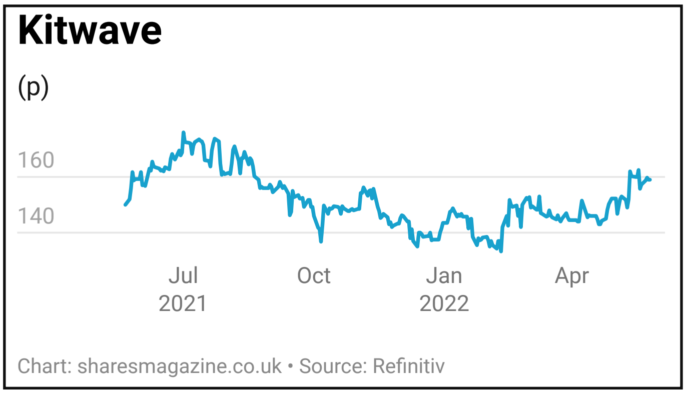


Chart: sharesmagazine.co.uk • Source: Refinitiv

Small cap food and drink wholesaler **Kitwave (KITW:AIM)** is relatively new to the stock market, yet we are confident it can establish a record of rising payouts. Its dividends are underpinned by a cash generative business model which is centred on consolidating the highly fragmented UK grocery and foodservice wholesale market.

Canaccord Genuity's year to October 2022 and 2023 estimates point to dividends of 7p and 7.9p respectively, meaning Kitwave offers prospective one and two-year yields of 4.4% and 4.9%, payouts more than twice covered by earnings.

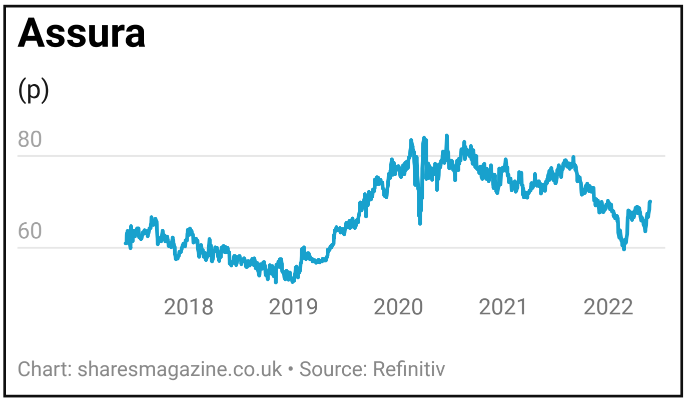
Kitwave delivers sweets, snacks, soft and alcoholic drinks and frozen and chilled food to a diverse customer base which spans convenience stores, pubs, vending machine operators and foodservice providers.

Competitive advantages include an extensive depot network giving nationwide coverage and an in-house fleet of delivery vehicles and drivers.

Admittedly, Kitwave faces uncertainties from cost-of-living pressures impacting end consumers' disposable income and higher operating costs, although CEO Paul Young is confident rising costs will be recovered. [JC]

Assura (AGR) 70.1p

Prospective dividend yield: 4.4%



Real estate investment trust **Assura (AGR)** owns and develops medical centres serving GP practices. Almost seven million patients are served across the company's portfolio.

The shares offer an attractive yield of 4.4% and the company has consistently grown its dividend by around 3% a year on average over the last few years. The firm increased its dividend by 3.9% to 2.93p for the year to March 2022.

Dividends are paid every quarter and Assura says it is now targeting 0.78p per share every three months. That marks its ninth consecutive annual increase in the shareholder payout.

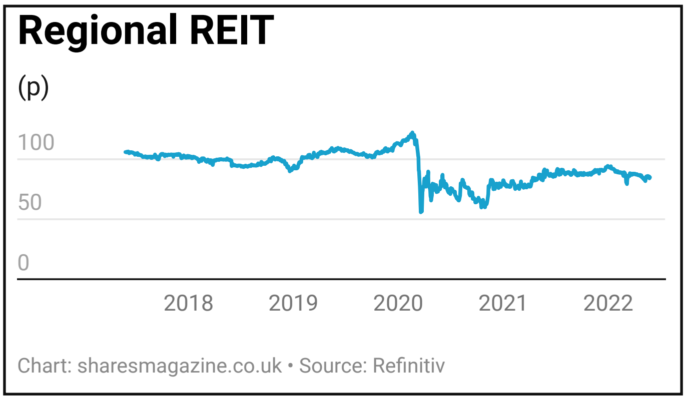
The company has a stable and reliable business and a differentiated offering which means it is well positioned to continue to grow the business and increase the dividend.

Assura has a portfolio worth £2.7 billion, and a development pipeline valued at £522 million.

While the shares trade on a 15% premium to net asset value, they are cheaper than sector peer **Primary Health Properties (PHP)** which is on a 20% premium. [MG]

Regional REIT (RGL) 84.88p

Prospective dividend yield: 7.6%



While it may not appear as exciting as e-commerce warehouses or infrastructure, investing in high-quality regional offices has proved a successful strategy for Stephen Inglis, manager of **Regional REIT (RGL)**.

With a portfolio of 160 properties worth £874 million as of the end of March, the firm generates around £68 million in rent per year.

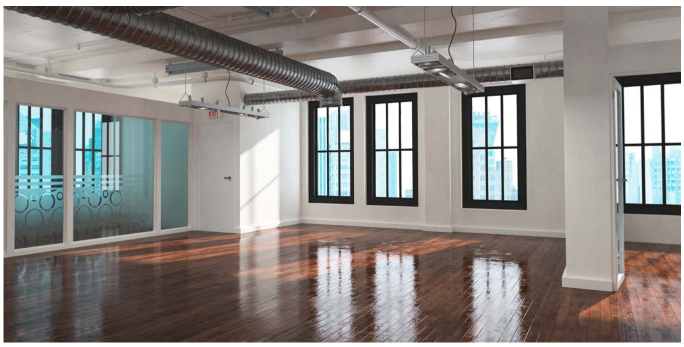
At 97%, rent collection is well above London levels, while the value of the assets continues to be revised upward.

In addition, Inglis and his team actively manage the portfolio, adding value by selling properties which have achieved their targets and buying properties with higher returns.

In the past year, £69 million of assets were sold at an average rental yield of 5.9% and £48 million of assets were acquired at a yield of 8.7% which means higher income and the potential for upward revaluation.

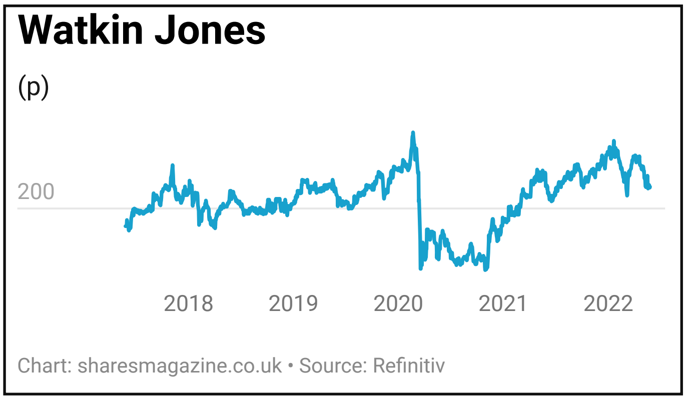
The first-quarter dividend increased to 1.6p per share, which annualised means a payout of 6.4p or a yield of 7.6%. [IC]

Disclaimer: The author Ian Conway owns shares in Regional REIT



Watkin Jones (WJG:AIM) 224.95p

Prospective dividend yield: 5%



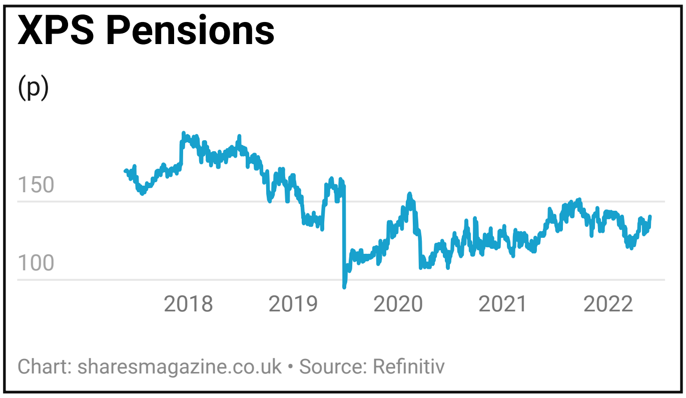
'When it comes to unsung dividend heroes, we like **Watkin Jones (WJG:AIM)**, a leading developer, builder, and third-party manager of new homes in the build-to-rent and student accommodation sectors,' says Chris McVey, manager of **Octopus UK Multi Cap Income Fund (BG47Q66)**.

'This business benefits from a fantastic, secured development pipeline of circa £2 billion, of which circa £0.6 billion is forward sold giving the group material revenue visibility out to 2025.

'Watkin Jones also benefits from strong cash generation which underpins an attractive and sustainable prospective 5% dividend yield, but further to this provides the business with balance sheet flexibility offering scope for further organic and inorganic growth.'

XPS Pensions (XPS) 140.5p

Prospective dividend yield: 5.3%

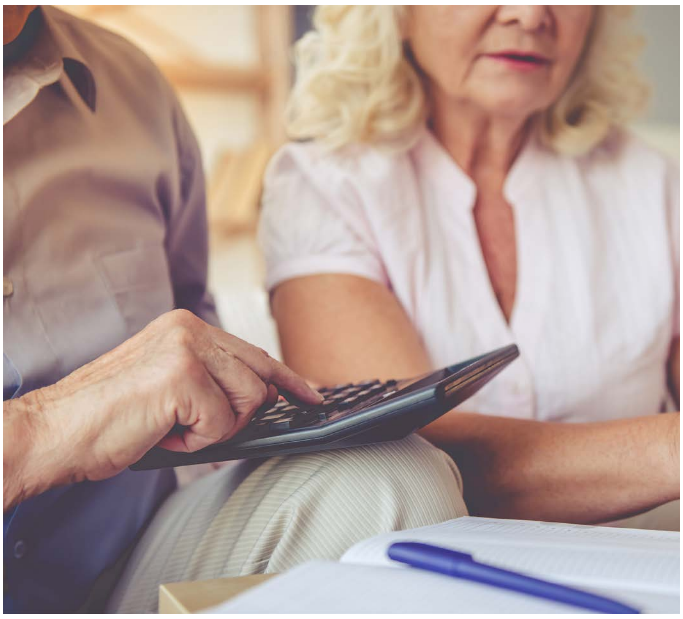


'On its website, XPS Pensions says it "exists to shape and support safe, robust and well-understood pension schemes for the benefit of people and society". I buy into that,' says Gervais Williams, manager of **Diverse Income Trust (DIVI)**.

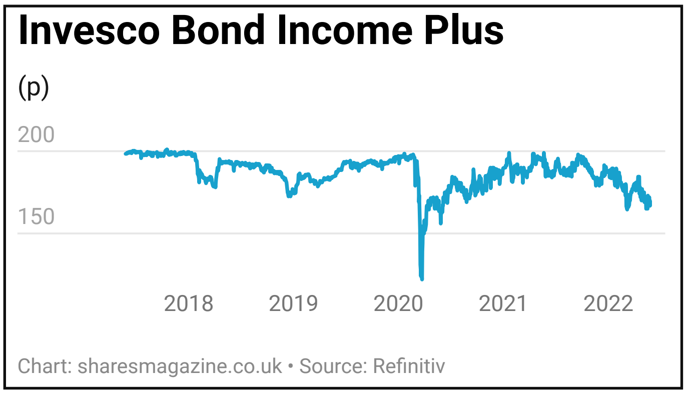
'It goes further and says it wants to "become the clearly differentiated alternative firm to the 'Big 3' and the pre-eminent mid-tier pensions consulting firm". I think it is going to get there.

'I am impressed by XPS Pensions' collective sense of purpose that is underlined in its latest staff survey where 94% think the company is a good place to work. Furthermore, it had a landmark appointment to the **BT (BT.A)** pension scheme recently. That turned a few heads.

'The bottom line is that XPS has a strong record of driving profitable growth that is reflected in a rising stream of dividends.'



Invesco Bond Income Plus (BIPS) 168.21p
Prospective dividend yield: 6.5%



'**Invesco Bond Income Plus (BIPS)** invests predominantly in European high-yield bonds and has a good track record, outperforming the ICE BofA European Currency High-Yield index over the past five years,' says Emma Bird, a research analyst at Winterflood Securities.

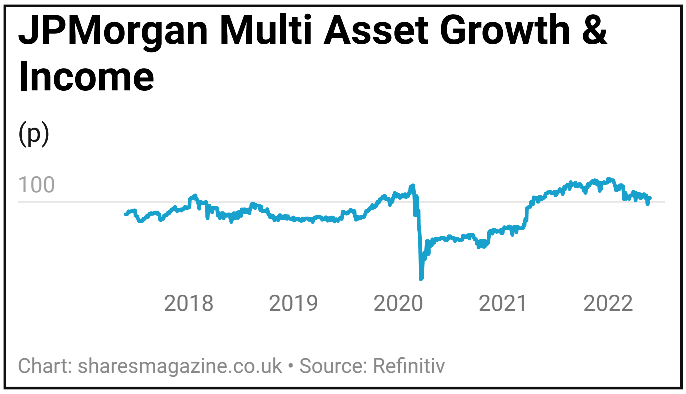
'We view the investment trust's prospective yield of 6.5% as highly attractive and the 11p per year target dividend for the next three years provides some confidence in it being maintained, particularly given the board's commitment to use capital reserves if necessary.

'The merger with Invesco Enhanced Income last year has made the investment trust the largest in its peer group and has also increased its liquidity.

'In our opinion, this could improve its profile and make it more accessible for a wider range of investors. The rise in size, combined with a reduced management fee of 0.65%, will also lead to a fall in ongoing charges.

'The investment trust's shares currently trade at a small discount to NAV, which in our view offers an attractive entry point given that over the past decade they have often traded at a premium. Furthermore, given investors' continued demand for yield, we would expect the rating to be well-supported if the dividend can be maintained.'

JPMorgan Multi Asset Growth & Income (MATE) 99.61p
Prospective dividend yield: 4.4%



JPMorgan Multi Asset Growth & Income (MATE) has a commitment to grow its dividend at least in line with inflation, as measured by UK CPI,' says James Carthew, head of investment companies at research group QuotedData.

'The trust aims to generate both income and capital growth, with lower levels of volatility than a traditional equity portfolio. It operates a multi-asset strategy, maintaining a high degree of flexibility with respect to asset classes, geographies and industry sectors.

'Dividends are backed by both revenue and distributable reserves. This allows the managers to focus on maximising returns rather than skewing the portfolio towards high yielding investments.

'The trust has a broad-based portfolio encompassing equities, bonds and alternative investments such as infrastructure. It aims to generate average total returns of 6% per year over five-year periods (share price gains/losses and dividends). Helped by share buybacks where necessary, its shares tend to trade close to net asset value.'


RUSS MOULD
AJ Bell Investment Director

Why oil shares seem unshaken by the windfall tax

Shell and BP barely blinked when Rishi Sunak announced a new levy on the sector

Bruce Kovner may not be the best-known hedge fund manager in the world but, as the founder of Caxton Associates, he is one of the most successful.

He gives little away in public, but it is worth tracking down his few pronouncements and one of this column's favourites is his comment, 'What I am really looking for is a consensus the market is not confirming.'

Right now, so far as this column can tell, the consensus is that oil prices are going to stay high, because of the war in Ukraine, an assumption that OPEC+ will maintain supply discipline or that oil firms are wary of new drilling projects because of environmental or political pressure.

So concerned is World Bank president David Malpass about oil prices that he is citing the Russian invasion of Ukraine, and its effect upon commodity prices, as a potential cause of a global slowdown, if not an actual recession.

Oil stocks are responding to this environment. Shares in **Shell (SHEL)** and **BP (BP.)** are both back to pre-pandemic levels and Shell is nudging toward its prior all-time peaks, even if BP is some way short.

When oil stocks are studied in a wider context, it seems as if investors don't believe crude will remain in the ascendent for too long, possibly in the view that the long run move away from hydrocarbons to alternative, renewable sources of energy is on track.

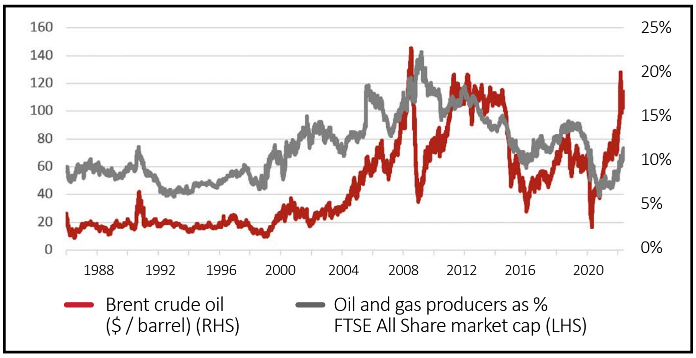
HIGHER PRICE, LOWER PROFILE

Whether this is a good example of a situation where share prices remain sceptical of what seems like the consensus is something that investors can only decide for themselves.

But managing the transition from oil and gas to wind, solar and others may yet take time.

It is therefore interesting to note that oil stocks still represent only 11.4% of the FTSE All-Share's market capitalisation, compared to historic highs north of 20%, when oil also traded consistently above $100 a barrel.

UK oil stocks remain of diminished importance in the UK equity market



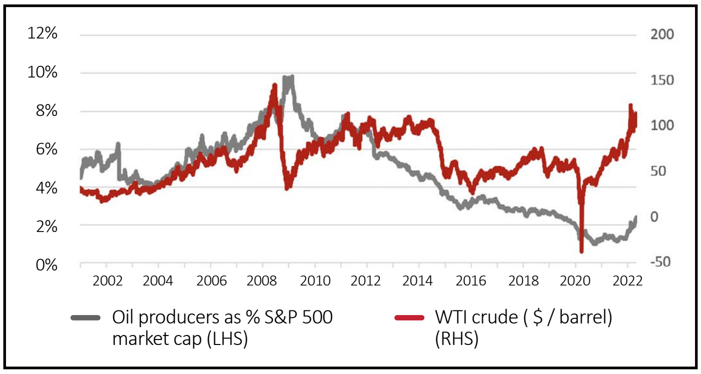
Source: Refinitiv data

RUSS MOULD
AJ Bell Investment Director

Oil stocks also seem to be relatively out of favour in the US, where their profile, as measured by their percentage of the overall stock market's valuation, is still languishing near historic lows.

In the US, the major oil producers command an aggregate market capitalisation which represents just 2.4% of the S&P 500 index's total $33 trillion price tag. Granted, that is a big leap from the lows of autumn 2021 but it is barely a quarter of the highs seen in the middle of this millennium's first decade.

US oil stocks also have a much lower profile relative to historic averages



Source: Refinitiv data

LOVE AND HATE

This is in stark contrast to the market's love affair with technology stocks. The US Information Technology sector did not quite reach its prior peak at around 35% of total S&P 500 market cap this time around.

That may be no bad thing, given how badly that 1998-to-2000 surge came to grief in 2001 to 2003's bear market, but tech still reached 30% during the pandemic as some investors decided it was the only story in town.

Tech's loss of favour may feel uncomfortable for many, but its reversal of fortune still looks minor compared to the rout of 20 years ago.

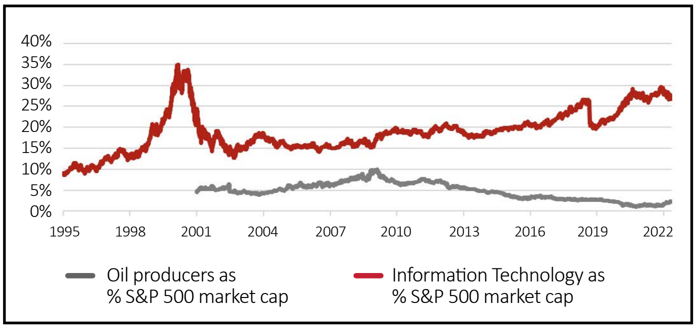
This takes us to another money management legend, Bridgewater's Ray Dalio, who is less circumspect when it comes to expressing his views publicly than Bruce Kovner.

One pearl from Dalio is this: 'The biggest mistake that investors make is to believe that what happened in the recent past is likely to persist. They assume that something that was a good investment in the recent past is still a good investment. Typically, high past returns simply imply that an asset has become more expensive and is a poorer, not better, investment.'

The crippling falls in many tech stocks would perhaps lead investors to think the consensus is bearish, just as oil shares' ongoing resilience, even in the face of the UK's 25% windfall tax, would give the impression that everyone is bullish on oil stocks.

The historic trends given to these sectors, and their relative weightings now, would suggest that may not be the case. Tech still feels loved; oil still feels reviled. Over to you, Kovner.

Tech still carries a hefty market weighting in the US



Source: Refinitiv data

We reveal the threats and opportunities facing investors in UK gambling shares

Rapid expansion of online gambling and increasing sector consolidation provide good tailwinds but regulatory threats loom

Three key factors look set to dominate the UK gambling sector in the coming years: big global dealmaking; a continued shift towards online gaming and an increased regulatory burden.

In this feature we take a closer look at the individual stocks in this space and highlight potential winners and losers.

We will focus in particular on **Flutter Entertainment (FLTR)**, **Entain (ENT)**, **888 Holdings (888)** and **Rank Group (RNK)**.

We shall discuss these factors shortly, but for the uninitiated we provide a brief description of the main players. After all, there have been several mergers and name changes in recent years.

THE RUNNERS AND RIDERS

The largest player by market cap and sales is Flutter Entertainment.

The firm generated around £6 billion of sales in 2021 and operates in more than 100 markets. The company changed its name following the merger of Betfair and Paddy Power.

It is organized across four divisions with UK and Ireland the largest representing around a third of revenues.

Brands include Skybetting and Tombola in the UK. Key US brands include FanDuel, Foxbet, and PokerStars. The company owns the leading online sports betting brand in Australia – Sportsbet.

Entain was formerly known as GVC and changed its name in December 2020. It generated almost £4 billion of revenues in 2021.

Entain owns the iconic Ladbrokes, Coral, Gala and Foxy Bingo brands in the UK. It is the leading UK high street bookmaker with more than 2,500 shops.

In the US the company operates through a 50/50 joint venture with **MGM Resorts (MGM:NASDAQ)** called BetMGM. Other owned brands include

How do the financials of gambling stocks shape up?

	Entain	Flutter	888	Rank
Enterprise value (£ billion)	10.1	18.5	0.6	0.6
Revenue (£ billion)	3.8	6.0	0.8	0.5
EV to Sales (x)	2.7	3.1	0.8	1.2
Forward price to earnings ratio	15.4	23.0	7.5	6.8

Table: sharesmagazine.co.uk • Source: Stockopedia, Refinitiv

Sportingbet, Bwin, partypoker and Party Casino.

Rank Group is the largest casino operator in the UK by number of venues and the second largest bingo operator through its Mecca brand with a national network of 72 venues.

Rank is the fourth largest bingo operator in Spain by number of venues. The company also operates several digital-only brands.

888 Holdings is a global online gaming and sports betting company operating in more than 100 markets. The company claims 888casino is the only globally recognized casino brand.

The company entered the US market in 2011 through an agreement with Caesars Interactive Entertainment. 888 also has a strategic partnership with iconic US brand *Sports Illustrated*.

In 2021 888 acquired the European assets of William Hill which will significantly increase the size and scale of the company. The combined group will hold top three positions in the UK and Spain.

US LAND GRAB

In 2018 the US re-opened its gambling markets by repealing the 1992 Professional and Amateur Sports Protection Act (PASPA), effectively creating a significant land grab opportunity.

Analysts have estimated the size of this opportunity to be ultimately worth between $30-and-$35 billion a year in gaming revenues.

Under US state laws, overseas firms wanting access are required to partner with US companies which hold a limited number of licenses.

Flutter owns leading US fantasy sports company FanDuel while Entain operates through a 50/50 joint venture with MGM Resorts International.

Flutter and Entain claim to be market leaders and generated $1.9 billion and $850 million of US revenues respectively in 2021. Both are expected to turn a profit across the Atlantic in 2023.

Global online gambling market by revenue

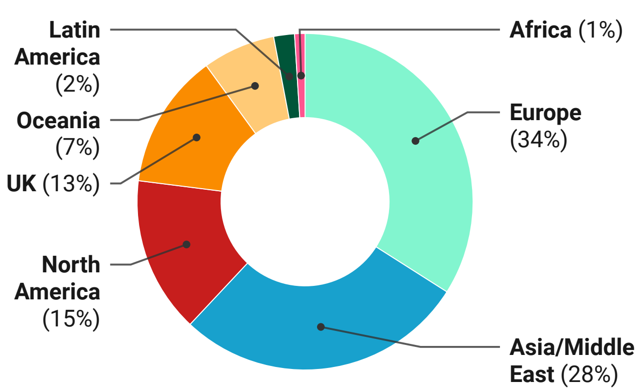


Chart: sharesmagazine.co.uk • Source: Entain, H2 Gambling Capital

US FIRMS TRY TO TAKE CONTROL

US firms seem intent on buying out their UK partners just as the economics and scale of the US operations get more interesting and start generating profit.

MGM Resorts tried to buy Entain in January 2021 for $11 billion (£8 billion) which Entain's board promptly rejected.

A few months later, FanDuel's main US rival **Draftkings (DKNG:NASDAQ)** made an audacious £16.4 billion offer for Entain but later walked away.

One key factor behind the bid's failure was the possibility of BetMGM taking full control of the joint venture in the event of a hostile takeover.

The only casualty so far has been William Hill which succumbed to a £2.9 billion takeover from **Caesars Entertainment (CZR:NASDAQ)** in April 2021. Shares in Caesars have roughly halved since the acquisition.

Caesars and William Hill had operated a 20/80 joint venture before the agreed deal. The US firm argued the JV needed to be 'broadened in scope' to fully maximise the US opportunity.

Caesars operates through 54 properties in 16 states under the Caesars, Harrah's, Horseshoe and Eldorado brand names.

In September 2021 William Hill's ex-US operations including 1,400 UK betting shops were sold to 888 Holdings for £2.2 billion.

888 was predominantly an online casino operator before the deal and the acquisition will transform the business.

Management expect the addition of William Hill will enhance adjusted earnings per share by more than 50% in the first full year of ownership.

TIGHTER REGULATION THREAT

The Government is reviewing current gambling legislation after criticism there aren't enough controls to protect vulnerable customers.

The rapid growth of online gambling has opened the market up to a broader but less experienced audience.

A Public Health England study in September 2021 found an estimated 409 suicides were linked to gambling across the country every year.

There have been reports suggesting the Government is considering reducing online casino stakes to as little as £2.

Affordability checks would be introduced to protect the most vulnerable.

The proliferation of football clubs striking lucrative sponsorship deals with betting firms has resulted in nearly half of the Premier League teams having a betting firm as sponsor.

The Government is hoping to convince football clubs to replace the gambling firms or ban the practice altogether.

However, it isn't straightforward as smaller football clubs rely on lucrative sponsorship deals to survive, so they may resist.

In the top-flight West Ham receives one of the most lucrative deals according to BBC sport, taking in £10 million a season from sponsor Betway.

MOST AND LEAST AT RISK

Online betting company 888 Holdings looks most at risk from the review given it generates around 42% of its revenue from the UK market. But arguably the shares already reflect a lot of bad news.

According to investment bank Berenberg the shares are discounting a worse-case scenario of around a 30% hit to 2022 EBITDA (earnings before interest, taxes, depreciation, and amortisation). This looks excessive relative to Berenberg's forecast of a 15% impact.

At the other end of the spectrum casino and bingo operator Rank Group could be a beneficiary from regulatory changes.

In a research note Numis argues the company could benefit from the gambling review if the government harmonises casino licences between online and shops allowing more machines to be installed.

The gambling firms haven't been idly sitting on their hands waiting for the laws to change and have spent millions of pounds developing ways to address regulatory issues.

For example, Entain has developed an artificial intelligence product which runs in the background and detects vulnerable behaviour. Initial trials have shown encouraging results with an overall 30% reduction in customers increasing their risk levels.

Regulatory costs have become a bigger feature of the landscape and this is another key driver of increasing consolidation.

OUR TOP PICK

We believe Entain is the most attractive company in the sector due to its strong technology platform and leading US presence. We also like its ambitious growth strategy and vision.

Entain has a differentiated offering and unique view of how the industry might develop in the future.

Chief executive Jette Hygaard-Andersen believes the interactive entertainment and media industries are converging with the betting and gaming industries.

This backdrop will provide meaningful growth opportunities and the company estimates its total addressable market is three times as big as the current business.

Investors looking for diversified exposure have limited options as there are few funds which are dedicated to the sector. One possibility is the recently launched **Fischer Sports Betting and iGaming (BETP)**, issued by HanETF.

The sterling-denominated exchange-traded fund has an ongoing charge of 0.69% and tracks the big UK players like Entain and Flutter along with overseas firms like DraftKings and Swedish online casino tech firm **Evolution AB (EVO:STO)**.

By **Martin Gamble** Education Editor

How little-known Calnex has stayed resilient in face of fickle 2022 markets

Telecoms testing kit maker plays into big investment themes that should drive sustainable growth

This year has been one of the most challenging for equity investors in years with major indices running up double-digit losses and Nasdaq, the poster child of growth investors, now in bear market territory.

Even the relative stability of the UK stock market has been tested, with steep slides following every run higher.

The FTSE All-Share index is now off around 1% in 2022, having been nearly 10% down in March. So how is it that a £140 million Scottish tech business has managed to navigate this erratic market mood so well?

A year ago, **Calnex Solutions (CLX:AIM)** was trading on a forward price to earnings multiple of 21.8 at 109p, having braved pandemic markets by listing its shares on the AIM market in September 2020 at 48p.

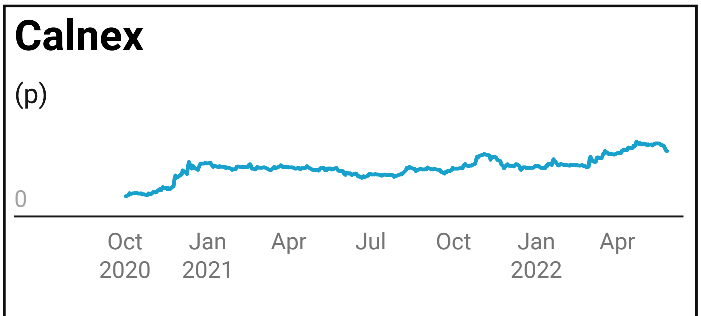


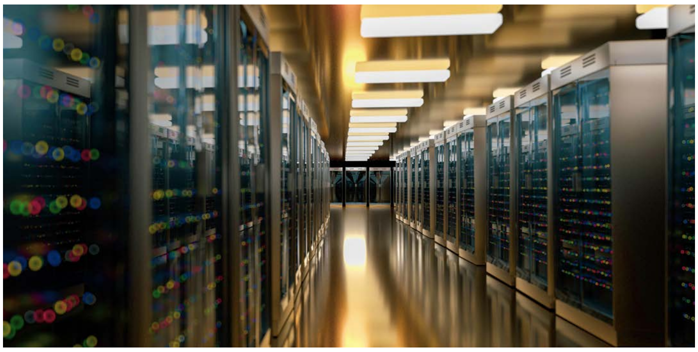
Chart: sharesmagazine.co.uk • Source: Refinitiv

Now, the stock is trading at 154p, 220% up on its IPO price and equating to a forward price to earnings ratio of 25.2.

So many stocks have derated this year, yet Calnex continues to win fans who are eager to bid up the stock.

WHAT DOES IT DO?

Calnex is a global leader in the telecoms network testing space with a distinguished list of customers.



Today, it serves businesses across the entire telecoms value chain, including network carriers such as **BT (BT.A)**; hardware providers, including **Ericsson (ERICB:ST)** and **Nokia (NOKIA:HEL)**; and chip companies such as **Intel (INTC:NASDAQ)**.

The group is led by founder Tommy Cook, who has over 35 years' experience in telecoms testing and measurement.

Cook puts the robust share price performance down to the company's broad spread of products and global markets where it sells them. Last year, Calnex reported record £22 million revenue, up 23%, with double-digit growth across North America, Asia and elsewhere in the world.

FTSE 250 telecoms testing kit expert **Spirent (SPT)** is a major partner and sales channel for Calnex equipment.

KEY ATTRIBUTES

We think the real secret sauce to Calnex's spicy progress is two-fold:

- Good management of the component shortages that have hurt so many businesses;
- The business lies at the heart of technological mega-trends that promise to generate substantial growth in the years ahead.

Calnex R&D investment vs amortisation (£m)

	R&D investment	% of revenue	R&D amortisation
2019	2.9	29%	2.0
2020	2.9	21%	2.2
2021	3.3	19%	2.5
2022	4.5	20%	2.9
2023e	5.3	20%	3.4
2024e	6.0	20%	4.1

Table: sharesmagazine.co.uk • Source: Calnex, Cenkos; e = estimates

Calnex says supply chain and components accessibility are likely to be challenges for the rest of this year and maybe deep into 2023, yet the company's manufacturing partner Kelvinside is a real procurement expert, which should help alleviate the worst impacts, believes Cook.

But the main reason to be optimistic about Calnex's prospects stem from the major changes impacting the global telecoms and data centres industries. Not only are superfast fibre and new 5G mobile network technology being rolled out at pace, but new technologies such as cloud computing, autonomous vehicles, smart connected cities have emerged, all needing high performance testing.

Cloud computing is one great example, where operators such as **Amazon (AMZN:NASDAQ)**, **Microsoft (MSFT:NASDAQ)**, **Meta Platforms (META:NASDAQ)** and **Alphabet (GOOG:NASDAQ)** dominate.

These companies run large and growing data centre capacity and networks which requires managing vast quantities of data. This presents a substantial opportunity for Calnex as the testing and performance monitoring of these networks use similar technology to that used in the telecoms industry, usually conforming to the same international standards.

Calnex is opening up this market thanks to in-house research and development (it spent £3.9 million last year), where new and evolved products come with ever sophisticated software. Selling bundles of equipment to customers with ever richer features helps keep gross margins high. These were 75% last year.

Product development can also be bolstered by acquisitions, as with April's 2.5 million iTrinegy deal, building out its software defined test networks technology. Calnex expects the business to be an important contributor to profit in future.

This all flows down to profit growth and, for the first-time last year, dividends, paying 0.84p per share for the 12 months.

RISKS TO CONSIDER

The squeeze on supply chains and components could get a lot tighter, which could slow project delivery and sales growth. Calnex might also struggle to get the right people recruited to fuel planned growth, although last year's 19 new hires suggest this is not a big issue at present.

There is also the valuation of its shares. A March 2023 PE ratio of 25.2 is not eye-watering yet it is probably at the upper end of what many investors are comfortable paying now. With inflationary pressures continuing to fray the nerves of investors, any shortfall in revenue and profit progress could prompt a big sell-off in the shares.

That said, Calnex revealed a 'record' order book heading into full year 2023, giving Cook and his board confidence that the group can deliver 'significant, sustainable growth' over the coming years.

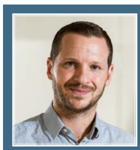
By **Steven Frazer** News Editor

Should I put spare cash in my workplace pension or a SIPP?

There are pros and cons when choosing how to boost your retirement savings

I'm saving at the automatic enrolment minimum in my workplace scheme. Having just paid off my student loan, I have extra cash each month to invest. I've already got a decent buffer in place and own my own home.

Does it make sense to top up my workplace pension (I'm currently in the default fund) or should I consider setting up a SIPP instead? I'm 40 years old and don't have any dependents.
Stephen



Tom Selby, AJ Bell Head of Retirement Policy says:

For most people who are prioritising saving for retirement, making the most of matched contributions in your workplace pension scheme should be your first port of call.

Under automatic enrolment rules, your employer must provide a workplace pension scheme and pay a minimum level of contribution.

In 2022/23 this minimum is 8% in total – 4% from the employee, 3% from the employer and 1% via pension tax relief. These minimum contributions are currently based on 'qualifying earnings', meaning that only salary between £6,240 and £50,270 counts.

This means, for example, someone earning £30,000 who was auto-enrolled at the minimum would only have their minimum contributions based on the band of earnings between £6,240 and £30,000. This would mean their total contribution for the year would be (£30,000 - £6,240) x 8% = £1,900.80.

It is generally accepted that contributions at the auto-enrolment minimum will likely fall short of delivering on lots of people's retirement expectations. Saving above this minimum is likely to be necessary for millions of people.

Remember, 8% of qualifying earnings is just the minimum and plenty of employers will match contributions beyond this level.

If you haven't made an active choice with your workplace pension about where your money is invested, it will likely be in a 'default' fund.

This will invest your money in a way that aims to provide a decent retirement outcome – although it won't be built around your risk preferences or long-term goals. Charges for default funds are capped at 0.75%.

Some schemes will offer a single investment solution while others might provide different options outside the default (although these will not be covered by the charge cap).

If you want to top up your existing scheme with extra contributions and you are happy with your investments this should be possible – just speak to your employer.

Alternatively, you could open a self-invested personal pension (SIPP) with another provider and make extra contributions.

SIPPs offer a range of potential advantages, including allowing you to build a portfolio that suits your needs by choosing from potentially thousands of different investment options. SIPPs offer all the tax advantages of workplace pensions too. Although the 0.75% charge cap will not apply, portfolios can still be built at low cost.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

Should I fix my savings now or bank on higher rates coming?

There is a lot to consider if you want to get more for your money

Higher interest rates are on the way, or so the boffins in the investment markets expect. This is great news for savers, but it presents a conundrum for those looking at whether to lock in higher interest rates by fixing their savings.

In this article we'll help guide you through whether you should lock away your savings to get higher rates or not.

WHAT'S HAPPENING WITH INTEREST RATES?

The Bank of England has been increasing the official interest rate level known as the base rate, in response to higher inflation. It has moved from

0.1% in December last year up to 1% today.

What's more, the rate is expected to rise further still. The market expects interest rates will rise to 2.5% by this time next year, which is a big increase over the next 12 months. This isn't guaranteed, but it's a guide to what's expected.

THAT'S GREAT NEWS FOR SAVERS, RIGHT?

After a long time facing record-low rates on their savings, the increase in the base rate is good news for anyone who has money saved in cash.

During the pandemic lots of people managed to put away the spare money they weren't spending on going out, holidays, commuting etc, but for most people that's been sitting in bank accounts earning very little.

As a result of the Bank of England raising rates, we've already seen savings rates increase. The top easy-access savings account paid 0.71% interest before the Bank of England first increased interest rates in December, and now it's sitting at 1.5%, according to Moneyfacts.

The flip side of this situation is that inflation has risen and is still rising, and there is no cash savings account that pays anywhere near the

level of inflation.

In fact, if we compare average cash interest rates, including the expected increase, and expected inflation rates over the next year, £10,000 of savings in the average cash account today will lose around £500 in real terms after we take inflation into account.

WHAT IF I FIX MY INTEREST RATE FOR LONGER?

Anyone who is willing to lock their money away for a certain period can get a higher interest rate. The longer you lock your money away, the higher the rate you can get, generally. However, it means you can't access the money during that time.

Some accounts will let you get your money out if you forfeit some interest, but generally you should only put money in these accounts if you know you won't need access to it during that period.

Currently you can get 2.36% interest if you fix your savings rate for a year, with Kent Reliance, while Charter Savings Bank is paying a marginally lower 2.34% – both have a minimum investment of £1,000.

If you fix for two years you can get 2.8% with Al Rayan Bank, so long as you have at least £5,000 to save, or 2.76% with Kent Reliance, with a £1,000 minimum investment. And if you're willing to lock money up for five years you can get 2.85% with a five-year bond from Tandem Bank.

SOUNDS GREAT, I'LL FIX MY MONEY THEN...

Don't be quite so hasty. You need to bear in mind that further increases in the Bank of England's base rate will push up savings rates on offer, and if you've fixed for a certain period, you'll miss out on that increase.

For example, if the base rate rises to 2.5% in a year's time, that's an increase of 1.5 percentage points from the current rate of 1%. If banks passed on all that increase to customers, you could get an extra 1.5% return on your money.

If we apply that to the current fixed-rate accounts, it means a one-year fix could rise to 3.86%. If you saved £5,000 of money that represents an extra £75 in interest over the year.

However, banks might not pass on all the increase in the base rate. It depends on competition in the market and how much banks need to attract savings deposits.

There is also the big uncertainty about whether the Bank of England will continue to raise interest rates and if so by how much. If interest rates don't rise or don't rise by much, then savings rates may also not increase. So, it requires some predictions and assumptions on your part when you decide whether to fix.

You could decide to park your money in the top easy-access account and wait for interest rates to rise, or you could opt for a one-year fix, on the basis that rates will be higher once that fix comes to an end.

Another option is to hedge your bets and split your money, putting half in a fixed-rate account today and half in easy-access savings.

By **Laura Suter**
AJ Bell Head of Personal Finance

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:

6 June: Jadestone Energy, Worldwide Health Trust. **7 June:** LXI Reit, Schroder Real Estate Investment Trust. **8 June:** Aveva, Itaconix, Marks Electrical, VP, Wizz Air, Workspace. **9 June:** CMC Markets, Mitie, Norcros, Peel Hunt, Tate & Lyle. **10 June:** Mind Gym.

Half-year results:

6 June: Atrato Onsite Energy. **7 June:** Gooch & Housego. **8 June:** Nexus Infrastructure. **9 June:** RWS.

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