Blankstone Sington

MARKET REPORT

Friday 29th May 2020

Market Headlines

US initial jobless claims for the week to 23 May were 2.1m, down from 2.4m the previous week, with over 40m people filing for unemployment since the start of the pandemic.

UK car production in April slumped to the lowest level since World War II amid lockdown, as the Society of Motor Manufacturers & Traders announced just 197 cars were produced, a drop of 99.7%, as some plants re-tooled to fabricate personal protective equipment.

President Trump scheduled a press conference on Friday, following the furore over the introduction of the security law in Hong Kong, against a backdown of already simmering US-China tensions over China's handing of the coronavirus, which led some markets to erase gains.

The S&P 500 closed down 0.2%, whilst in Asia the Nikkei 225 retreated 0.2%, the Hang Seng fell 0.7% and the Shanghai Composite rose 0.2%. European markets opened in negative territory.

Investments on our buy list

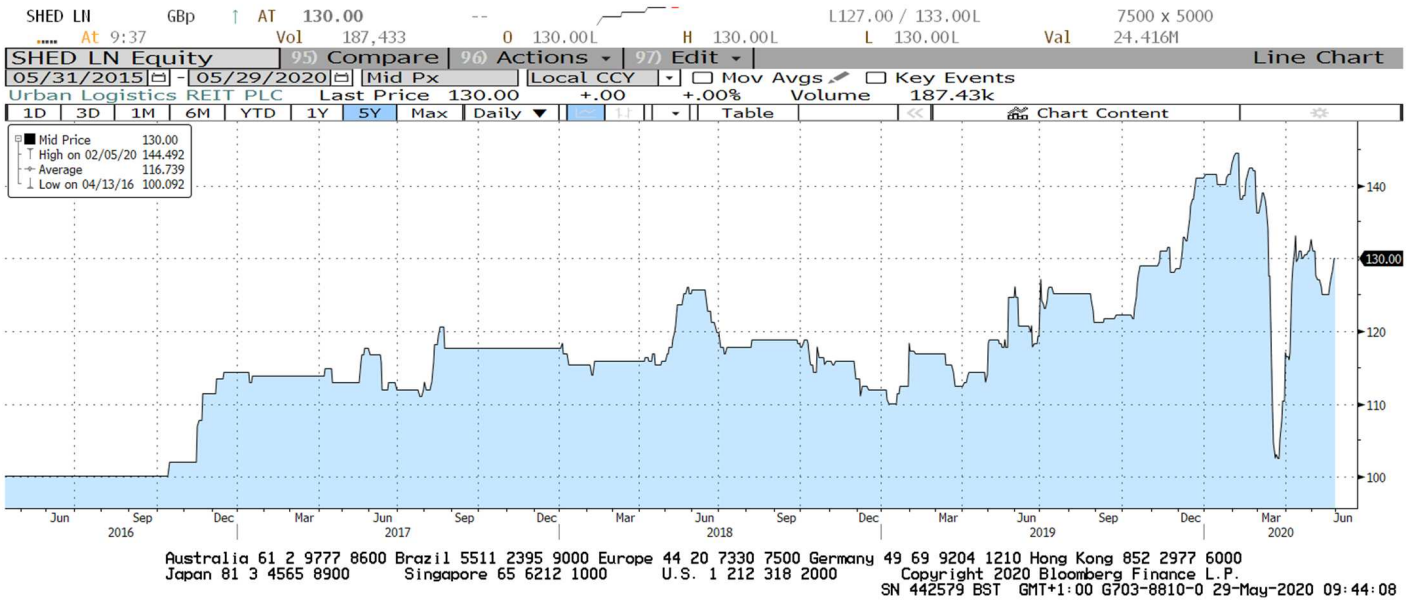
Capital & Counties (CAPC) – in response to press speculation it has confirmed that it has been in talks about a potential acquisition of a 26.3% stake in Shaftesbury plc. Following the sale of its Earls Court interests, Capco has the financial firepower to make the acquisition without pushing its gearing above modest levels. Strategically an alliance makes sense as Shaftesbury's 15 acres of West End property neighbours Capco's Covent Garden estate.
We retain our positive stance on Capco believing that there is good value on offer at the current share price.

Source: Bloomberg

BHP Group PLC (BHP) – Bank of America raised the stock to 'buy' today, encouraged by a 20% plus rise in the price of iron ore this month. BHP's share price has risen 60% since its low in March, so it is tempting to scale-back our buying interest, but the price has momentum and on a relative basis further outperformance looks likely.
We maintain our buy stance.

Source: Bloomberg

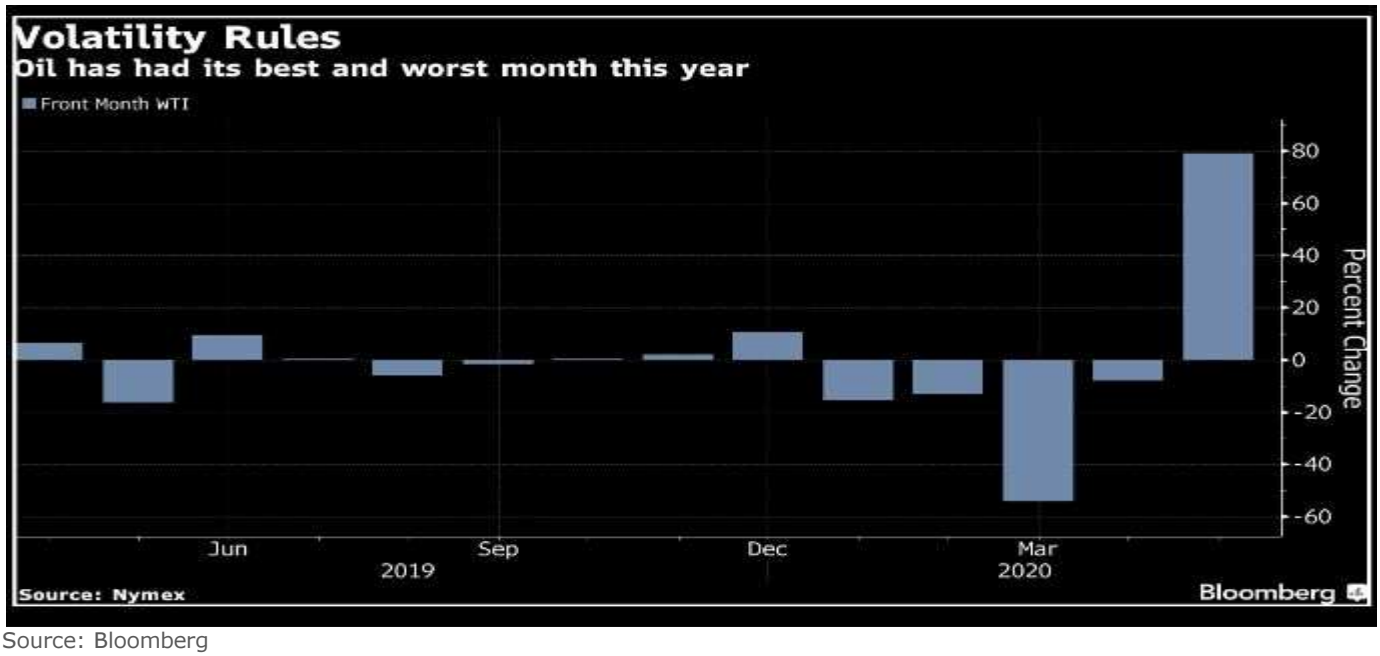
Urban Logistics (SHED) – FY results to end-March were in-line with expectations with net asset value flat on the year at 137.9p which reflected the £136m share placing and an early performance fee charge. Like-for-like rental income growth was 3.4% driven by three new lettings and four settled rent reviews. The dividend was up 8.6% to 7.60p, fully covered by earnings, which included a 3.85p special dividend at the time of the raise. The forward dividend yield is an attractive 5.2%. All rent for the quarter to March was collected in full, testament to management's focus on UK domestic product storage and distribution rather than cyclical/fashion products. Vacancy rates were 2.4% at year-end but today is just 0.1% after signing a tenant post period end. With net cash of £57m the company is very well placed to pick up any bargains in the current downturn, and will eventually borrow to take the loan-to-value to 30-40%. With hindsight they couldn't have timed the cash raise any better. Shares are only down 10% YTD versus 25% for the REIT sector and remain good value on a 6% discount to the reported NAV as opposed to larger peers Segro and Londonmetric on 20% premiums. Buy.



Source: Bloomberg

Chart of the day

Oil retreated about 1% on increased U.S.-China tension, but is still in line for its largest monthly advance in at least four decades. The oil market has started to recover from a virus-led demand crash after OPEC+ began reducing output, but investors will be watching for any change when the coalition meets in early June after Russia signalled it would scale back curbs in line with the deal.



Source: Bloomberg

Recap of yesterday

Bodycote rose 9.1% as it made cost savings of £7m a month, ahead of expectations. Revenues in April fell 30% and 12% for the first four months (year-on-year) with the greatest impact of the pandemic outside China being from the third week in March, with automotive and civil aerospace hardest hit.

Cineworld leapt 21.4% as it said it expected to open cinemas in July in all its territories, once restrictions were removed. Its June covenant test has been waived and increased for the December test as it agreed increased credit and it would apply for the UK and US Coronavirus Loan Schemes.

EasyJet climbed 4.4% as it planned to reduced staff by 30%, it only expected to fly 30% of capacity in the fourth quarter to September and market demand was unlikely to recover until 2023. It was also looking to sell and lease back some aircraft and said that through loans and credit it had £2bn in liquidity.

Stagecoach rose 8.7% as available liquidity rose to £841m, mainly due to the UK Covid-19 Corporate Financing Facility and it warned of the lasting effect on travel patterns. Adjusted earnings for the year to 2 May would be between 12.5-14p, bus mileage would be near normalised soon, versus the 40% current rate.

Online portal

We would like to remind you that you can now more easily keep up to date with the value of our account using our client portal. Please go to the Client Login section of our website to register now https://blankstonesington.co.uk/.

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