



MARKET REPORT

Wednesday 16th September 2020

Market Headlines

Yoshihide Suga was voted Japan's new prime minister by the lower house of parliament, he has pledged to pursue many of his predecessor's programmes including 'Abenomics' and was expected to keep many of the cabinet positions intact.

Japanese exports fell 14.8% to ¥5.2tn year-on-year in August, less than the 16.1% drop expected as imports declined 20.8% to ¥5.0tn, worse than the 18.0% fall predicted.

UK annualised inflation fell to 0.2% in August, the lowest since December 2015, from 1.0% in July, pushed down by the Eat Out to Help Out scheme, the cut in VAT in the hospitality industry, lower air fares and clothing prices.

The S&P 500 rose 0.5%, the Nikkei 225 added 0.1%, the Hang Seng was flat and the Shanghai Composite fell 0.4%. European markets were mixed.

Investments on our buy list

Redrow (RDW) – reported results for the year to 30 June 2020. Pre tax profit fell 66% to £140m from £406m recorded the prior year. Revenue fell 37% to £1.34bn from £2.1bn, with completions also down 37% to 4,032. The covid-19 pandemic was cited as the main reason for the disappointing performance as the business was forced to close all its sites and furlough most of its staff for three months. The group also moved to downsize its operations in London to concentrate on the suburbs and the regions, at a cost of £35m in the period.

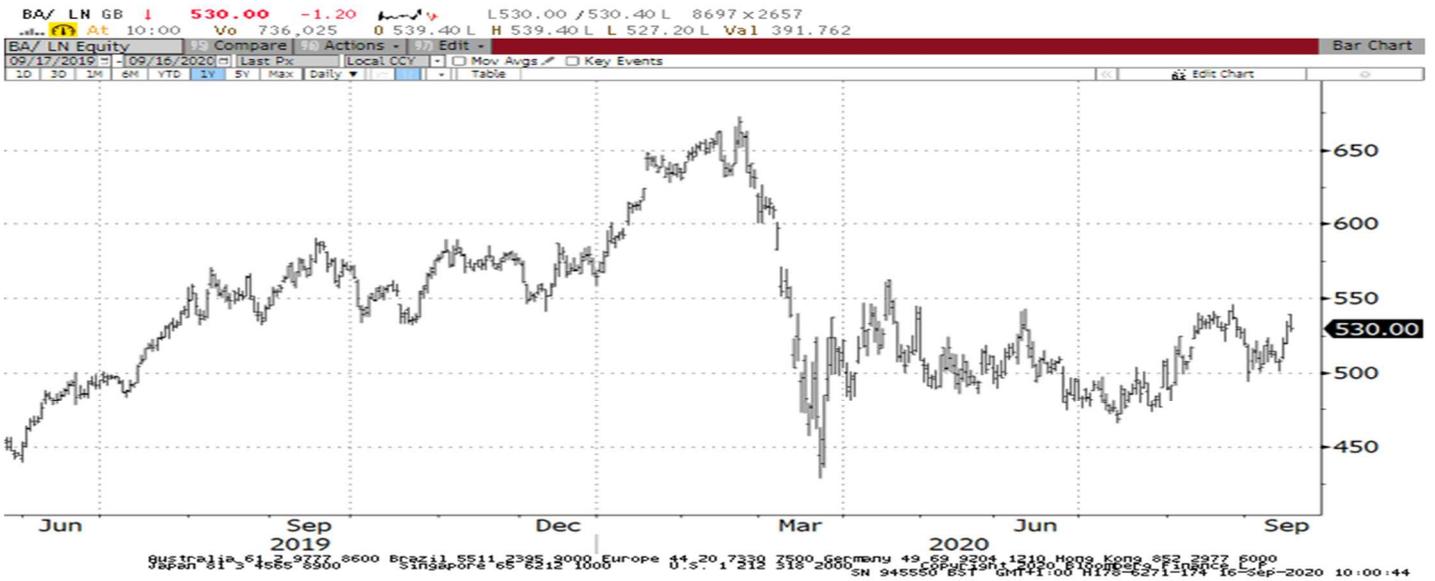
More encouragingly the new year has started strongly with a record order book of £1.42bn, and reservations, in terms of value, in the first 12 weeks of the new financial year 12% ahead. The group expects to resume dividend payments in 2021.

Barring a second national lockdown we see the group continuing to recover and trading on 8 times forecast earnings for 2021, believe the shares offer value.



BAe Systems (BA/) – Jefferies upgraded the stock to 'buy' today saying that the company was well-placed to meet challenges and its market valuation already discounts "significant caution" particularly in relation to lower U.S. defence spending.

In early August the group announced that first half earnings were 8% better than expected, cash generation materially improved, and the dividend was to be resumed. Profits were affected by curtailment of activities due to the lockdown, but the underlying business remained robust and contract wins were steady. The share price remains over 20% below its February high. Buy.

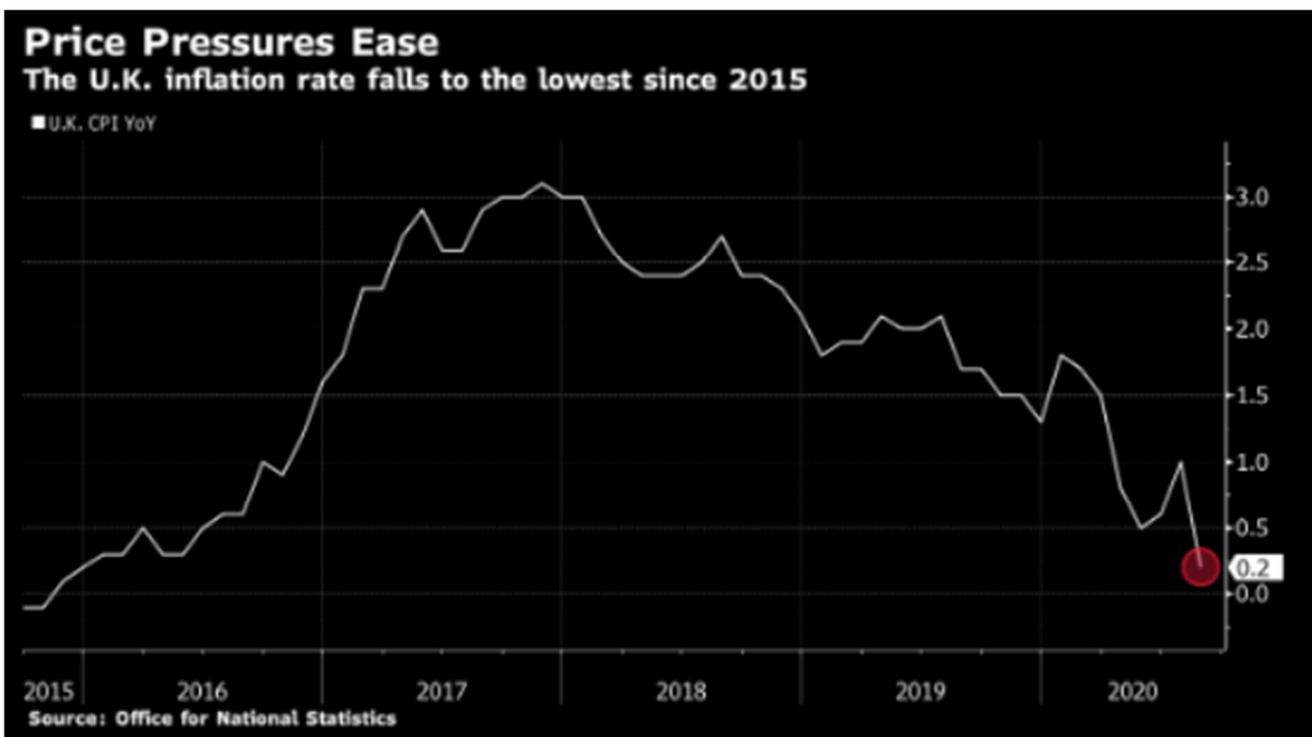


Source: Bloomberg

Chart of the Day

U.K. inflation fell to its lowest since 2015 last month, driven by government tax cuts and other stimulus designed to dig the economy out of the depth of the coronavirus crisis. The reading of 0.2% was slightly higher than the zero forecast by economists, although the drop from July's reading of 1.0% was still the biggest since 2008.

Prices fell on the month as government measures to support businesses kicked in. Those include a temporary sales-tax cut for hospitality firms and subsidising some restaurant meals in August under the Eat Out to Help Out scheme. A bounce-back is expected over the coming months and Bank of England Governor Andrew Bailey said this month he didn't expect the rate to turn negative in the short-term.



Source: Bloomberg

Recap of yesterday

FirstGroup rose 3.4% as it said it expected to deliver a small adjusted operating profit for the first half of the year, ahead of management expectations, driven by better revenue recovery and strong cost control. It was encouraged by significant interest from potential buyers for its North American business.

Ocado jumped 10.7% as it announced third quarter sales surged 52% to £587.3m year-on-year with a continuing shift to online grocery in the UK. The response to the move to Marks & Spencer products had been positive.

Polypipe increased 4.2% as it announced first half pre-tax profits fell to £2.3m from £31.4m a year earlier, on revenues 22% lower. It had seen an improving trend in July and August with sales down 6% and 3% respectively year-on-year.

Watches of Switzerland dipped 5.7% as 33m shares were placed via an accelerated bookbuild to institutional investors at 310p per share, increased from 27.5m shares due to demand, leaving the seller Apollo Global Management with a 28.3% stake in the business.

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