Blankstone Sington

MARKET REPORT

Tuesday 3rd August 2021

Market Headlines

US Treasury Secretary Janet Yellen urged Congress to take action as the government debt limit was hit.

Chinese officials vowed to test all 11m residents of Wuhan following an outbreak of the Delta variant.

The Royal Bank of Australia held rates at 0.1% as expected.

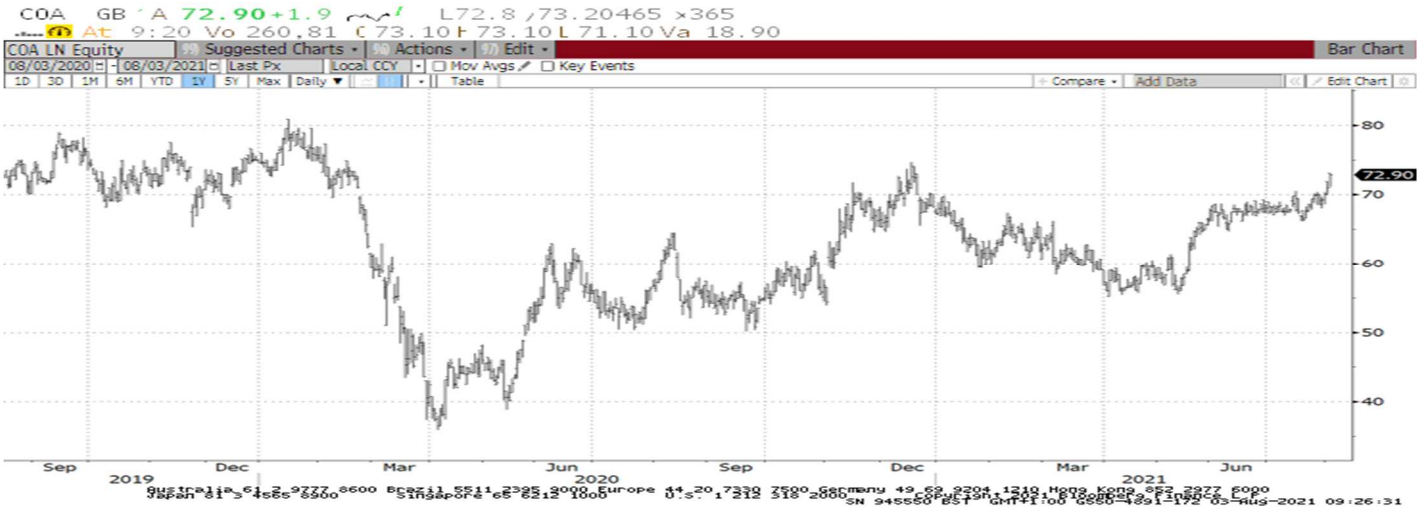
The S&P 500 dipped 0.2%, the Nikkei 225 and Shanghai Composite fell 0.5%, whilst the Hang Seng dropped 0.3%. European markets were mostly higher.

Investments on our buy list

BP plc (BP/) – increased its dividend for its second quarter and launched a $1.4 billion share buyback. BP reported a net profit of $3.12bn for the three months to June, down from $4.67bn for the first quarter. However, the underlying profit on a replacement cost basis increased to $2.80bn from $2.63bn in the first quarter. It declared a quarterly dividend of 5.46 cents a share, up from 5.25 cents for the first quarter. Increased distributions are based on the underlying performance of the business, an improving outlook for the environment and confidence in its balance sheet, it said.
For the third quarter, BP said it expects higher upstream production than in April-June, higher product demand across its customer business, and slightly improved refining margins.
BP's share price has been slow to respond to the vastly improved fundamentals as investors remain wary of the economic fallout from the pandemic. This leaves plenty of upside potential. Buy.

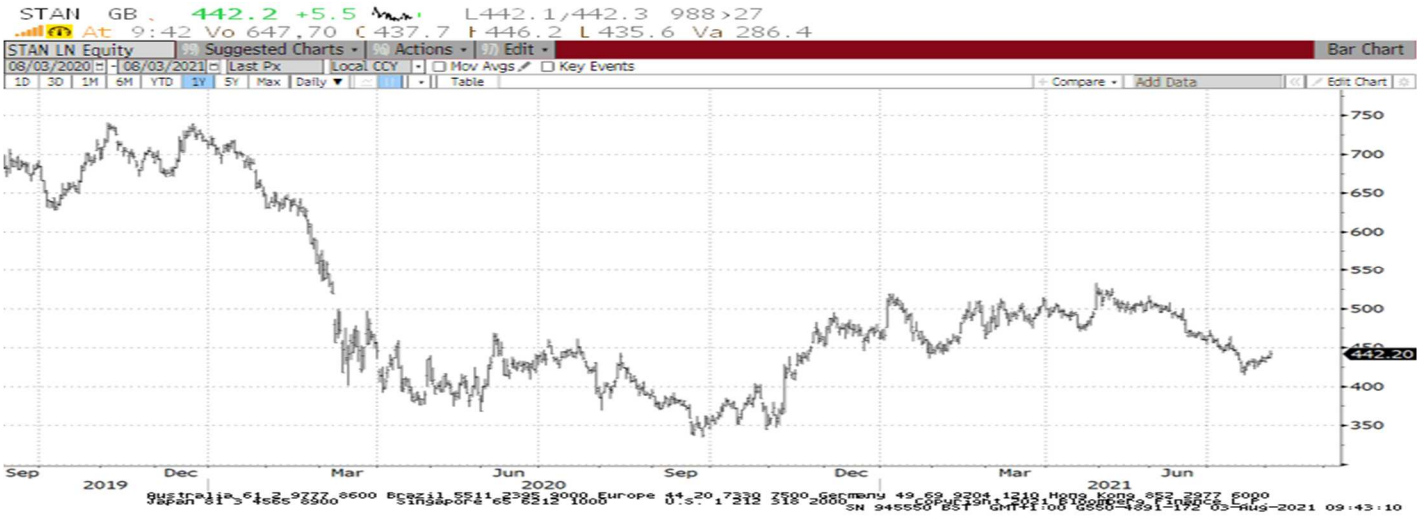
Source: Bloomberg

Coats Group plc (COA) – today reported adjusted interim operating profit of $95m compared to $34m for the same period in 2020 (2019: $102m). Revenues were $732m in the first half, up from $536m in 2020 (2019: $705m). The board declared an interim dividend of 0.61c versus nil last year (2019: 0.55c). The group reported continued positive momentum during the first half, new contract wins, and strong cash generation in the period. It reconfirmed its 14th July statement that full year 2021 performance is anticipated to be moderately ahead of the Group's previous expectations.
We retain our buy rating on the stock.



Source: Bloomberg

Standard Chartered plc (STAN) – the bank made an underlying pre-tax profit of $1.24bn in the second quarter, ahead of analyst estimates. It was boosted by the release of loan provisions, compared with a $611m reserve a year ago. It will resume interim dividends and is starting a $250m share buyback programme. The bank sees a return to 5-7% growth from 2022.
Asia was the bank's strongest region, with profit up 75% to $1.01bn, countering declines in Europe and the Americas. Chief Executive Bill Winters described results in Hong Kong and China as "fantastic", adding the "Chinese economy is going gangbusters."
STAN has been one of the worst performing European banks this year. Trading on only 7.4x forecast earnings for 2022 it still offers good value.



Source: Bloomberg

Chart of the day

Energy shares are stronger this morning after BP plc followed its Big Oil peers by increasing dividends and share buybacks as higher crude prices boosted profit.
European oil and gas stocks have participated in the market recovery post the pandemic sell-off, but still trade below average levels of the last decade, while the broader European market index is at a record high. This leaves the Oil & Gas sector looking very cheap on a relative basis.

Source: Bloomberg

Recap of yesterday

The U.K. equity market finished up around 1% following a strong performance in Asia

Meggitt rose 56% to 735p on agreed $8.8bn takeover by Parker-Hannifin

U.K. construction output in May surpasses pre-pandemic levels

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