Blankstone Sington

MARKET REPORT

Thursday 12th October 2023

Market Headlines

The UK economy grew 0.2% in August month-on-month as forecast, following the 0.6% contraction in July (see 'Chart of the day').

Federal Reserve meeting minutes showed a majority of participants judged one more rate increase would be appropriate, agreeing policy should be restrictive for some time.

Central Huijin Investment, a Chinese state fund, bought shares in the country's top 4 banks.

The S&P 500 rose 0.4%, the Nikkei 225 gained 1.8%, the Hang Seng added 1.9%, whilst the Shanghai Composite closed up 0.9%. European markets were higher.

Investments on our buy list

Gore Street Energy Storage Fund (GSF) – announced that the Board and the Investment Manager confirm that they are not aware of any portfolio-specific factors that have led to the recent sharp decline in the share price. The discount to Net Asset Value materially undervalues the Company and its portfolio. The Board maintains confidence in the quality of the assets across the five international energy markets, which continue to perform strongly, underpinning the dividend. Its non-GB portfolio spans four uncorrelated international energy markets, including the integrated Irish grid, Germany, Texas, and California, which now accounts for over 62% of operational capacity. This diversification insulates it from the current GB market saturation, which at some stage will ameliorate as is typical of capital-intensive industries and enables the pursuit of diverse revenue streams. It remains on track to bring its operational portfolio to 813.4MW by the end of 2024. It has no debt with £75m cash.
Last week the investment manager bought 1.3m shares at 78.58p. Trading on a 40% discount to NAV, we see a buying opportunity.

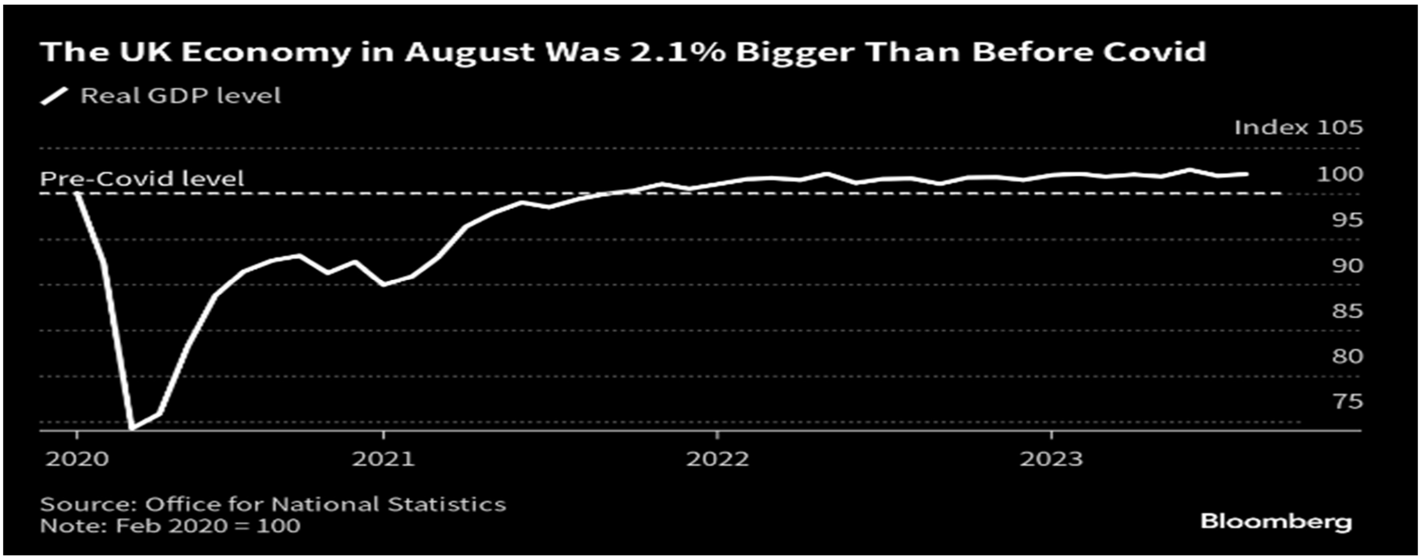
Source: Alpha Terminal

Hays (HAS) – announced first quarter results to 30 September, which saw total like-for-like fees fall 7% (Germany +7%, UK & Ireland -11%, Australia & New Zealand -17% and ROW -11%). By segment Temp fees were flat whilst Perm fees dropped 15%. CEO Dirk Hahn said: "FY24 has begun in line with our expectations. Temp & Contracting, our largest business and a key strategic focus, produced a resilient performance, although Perm markets remain more difficult, with increased time-to-hire. Fee growth was led by our largest market of Germany, with EMEA fees flat, while Australia & New Zealand, Asia and the Americas remained the most challenging markets. Our key markets remain characterised by skill shortages and continue to be positively impacted by wage inflation. We have a strong balance sheet and flexible business model and are well-positioned to adapt to near-term market conditions, while continuing to target structural growth opportunities and deliver shareholder value."
The fund trades on a PE 14x and carries a forward yield of 5.6%. Earnings are expected to slip 16% in the year to June 2024 before growing 28% and 22% for fiscal 2025 and 2026. The CEO picked up £100,000 worth of shares last month at 106p. We remain positive on the outlook for the company and view the current level as an attractive entry point.

Source: Alpha Terminal

Chart of the day

UK economic growth remained weak in August, as a modest rebound from a strike-afflicted July failed to ease concerns that output would shrink in the third quarter.
Gross Domestic Product rose 0.2% following a revised 0.6% contraction in July, the Office for National Statistics said today. Economists had expected growth of 0.2%. The recovery partly reflects the absence of factors that depressed activity in July, mainly large-scale industrial action. Services grew 0.4%, boosted by education after teachers went on strike in July. However, manufacturing shrank 0.8% and construction contracted 0.5%, with both reading worse than forecast.



Source: Bloomberg

Recap of yesterday

Burberry fell 3.2% after fellow luxury goods company LVMH said growth had slowed considerably in the third quarter.

FirstGroup rose 3.7% as it reported passenger demand was stronger than anticipated in the first half and full year operating profit would now to be up to £20m higher than expected.

Mitie gained 3.8% as interim revenues rose 11% to £2.1bn year-on-year, it had seen £2.2bn in contract wins and extensions/renewals. It now expected full year operating profit of at least £190m, with good ongoing trading.

Travis Perkins fell 6.1% as it issued a profit warning with full year adjusted profits now expected to be £175-195m, down from £240m, with profit margins hit. It had seen a deterioration in September in market activity and sentiment.

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