Canaccord Genuity
Wealth Management

INTELLIGENT INVESTING

April 2024

Market review

The atmosphere surrounding equity markets around the world has markedly improved over the last six months and continues to be more optimistic. After a pedestrian start to 2024, the FTSE All-Share Index has risen by more than 4% over the last month. Driven by Artificial Intelligence-themed technology stocks, the US is up over 10% year-to-date, and Japan by even more (all expressed in sterling).

After a massive recovery at the end of 2023, fixed interest is lagging this year. Nonetheless, we still think both legs of a balanced portfolio (equities and bonds) can generate good returns over the coming months. Our confidence is driven by three interlinked factors: we believe that US economic growth will moderate for the remainder of 2024 but not go into reverse; that inflation, while a little stickier than some had hoped for a few months back, will continue to move towards the 2% central bank target; and that, as a result, interest rates will be cut, starting around the middle of the year.

Falling interest rates should help bond yields to fall, which means that their prices will rise, and we have found plenty of opportunities in this space. The prospect of lower interest rates and no deep economic downturn should also support equities. Over the last 15 years, we've rarely, if ever, been simultaneously optimistic on both. Outside of the largest technology names, which are supported by excellent growth, valuations in the rest of the world remain reasonable – and in some cases cheap, despite the moves we've already seen.

Unusually, we think one of the areas where valuations look especially attractive is in the UK. Over the past three years, returns from the FTSE 100 have been good – in spite of a bad 2022 and all the geopolitical worries we've endured. The Index benefitted from the recovery in energy stocks and, including dividends, is now up by almost a third. Europe is similar, and Japan is up just over a fifth. The US, with its technology titans, of course leads the way – up nearly 50% (again, all in sterling). But the FTSE 250 Index of mid-sized UK companies is unchanged over the same time span, and the Alternative Investment Market (AIM) Index is down by around 35%.

This is where we see real value. And now, with the prospect of interest rate cuts later in the year, we think we can see a catalyst to attract attention to that value. Unloved, out of fashion and cheap. It's worth having some exposure to an area of the market where the biggest buyers at the moment are the companies themselves, who are buying back their own equity at a rapid rate. No one knows a company better than its management, and it appears UK smaller and mid-sized company boards are happy to pick up their own stock. Why not follow suit?

Richard Champion
Co-Chief Investment Officer

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UK LARGE CAPS

Drink in the discount

Coca-Cola Hellenic Bottling Company (CCH) is a leading bottler of the brands of The Coca-Cola Company (KO), with annual sales of 2.8bn unit cases. Using concentrate from KO, it prepares, packages, and delivers products across 29 markets.

It offers a diverse range of non-alcoholic, ready-to-drink beverages in the sparkling, juice, water, sport, energy, tea, and coffee categories. It also partners with other beverage businesses, such as Monster Beverage Corporation, Brown-Forman Corporation, Edrington Group Limited and Campari Group, selling their products as well as owning some of their brands (such as Finlandia Vodka).

Having navigated the Russia-Ukraine conflict in 2022 better than many of its peers, CCH performed strongly, with profit guidance upgraded five times during the year.

Despite this, the shares currently trade on 13x 12-month forward price-to-earnings (P/E) multiple* – a deep discount to both UK and international peers.

CCH detractors highlight that, as a bottler, most of its revenues come from third-party brands. We believe this misses the point – it would take years for KO to put the infrastructure in place to do its own bottling and would make it more capital-intensive, lowering return on capital. Additionally, senior KO management has been clear that its relationship with bottlers has never been better and remains supportive of consolidation among its bottlers.

Consequently, we believe that the discount CCH trades at versus its peers is unwarranted, given that its end markets are materially underpenetrated. CCH's combined end market consumed just 142 servings per capita in 2022, vs. the European average of 274 and the US of 509. Also, the combined population of these 29 markets is growing by c.0.8% (six million) annually, in sharp contrast to the EU, whose population is expected to be broadly flat to 2050. This means that, going forward, CCH grows volume faster than KO.

Taking all this into account, it's not surprising that CCH should deliver superior organic growth to most of its peers. Over the medium term, it expects to deliver

Coca-Cola Hellenic Bottling Company (CCH)

Share price £25.03
Market cap £9.1bn

	2023A	2024F	2025F
Revenue (£ bn)	8.8	8.9	9.4
Earnings per share (p)	177.6	185.2	204.9
Dividend per share (p)	80.7	83.3	91.5
Dividend yield	3.6%	3.3%	3.7%
Free cash flow yield	7.0%	5.2%	5.8%
Price earnings ratio	12.5	13.5	12.2
Return on capital employed	22.7%	23.6%	24.6%
Financial year end*			31 December

Source: Quest®
Note: 2024 and 2025 are forecast years

6-7% annual organic revenue growth while improving margins by 0.2-0.4% each year, which would result in 8-11% annual operating profit growth.

We believe that CCH offers a very attractive level of risk vs. reward, given that it offers superior organic profit growth to its peers** yet trades at a P/E multiple more than 30% lower.

Simon McGarry
Head of Direct Equity Research

*See glossary for definition.
** Organic revenue growth guidance by peer: Nestle (4%), PepsiCo (c.4%), Unilever (3-5%), Mondelez (3-5%) & Diageo (5-7%).

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UK SMALL CAPS

Recovery in store

Restore plc (Restore) is a support services company focused on providing services to offices and workplaces in the private and public sectors. The business has over 75 storage and processing centres across the UK and employs around 2,200 people.

For the past 20 years, Restore's business of storing boxes of documents in warehouses has been the main profit generator, and has highly predictable, recurring revenues which increase broadly in line with inflation. Its other businesses include scanning and cloud storage of documents, IT equipment services (reuse and recycling), document shredding services and office relocation services.

In four of the five business streams, Restore is either the UK market leader or the number two. The scale of the business gives it an efficiency advantage over smaller competitors, while its strong reputation reassures customers who demand high standards due to the sensitivity of the documents and supplied services.

Recent results demonstrated growth in storage revenue and profit. This was unfortunately offset by a slowdown in some of the smaller divisions – partly due to the weaker economic environment, and partly due to weaker recycled paper prices affecting the shredding division. This slowdown contributed to a change in CEO back to Charlie Skinner, who had previously led the business successfully for many years. He has since instigated a series of self-help initiatives that should contribute to a strong recovery in profit for FY24 and 25.

The new management team believes Restore should be targeting an operating margin of no less than 20% in the medium term. If this is achieved, it could result in the P/E* falling from around 11x (next twelve months) to around 8x, compared with the five-year

Restore plc

Share price 216p
Market cap £296m

	2023A	2024F	2025F
Revenue (£ bn)	277	292	307
Earnings per share (p)	16.6	18.9	21.8
Dividend per share (p)	5.2	5.7	6.5
Dividend yield	2.1%	2.6%	3.0%
Free cash flow yield	14.5%	7.9%	9.3%
Price earnings ratio	14.6	11.4	9.9
Return on capital employed	6.3%	10.3%	11.5%
Financial year end*			31 December

Source: Quest®
Note: 2024 and 2025 are forecast years

average of 15x. Longer-term, the company could be subject to a bid.

Ian Berry
UK Small Cap Equity Analyst

*See glossary for definition.

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Investments in smaller companies are not suitable for all investors as they are high risk and tend to be more volatile and illiquid. Selling may be difficult and they can fall further than the wider market. They are more exposed to fluctuations in the domestic economy and growth is not guaranteed. When we talk about investing in smaller companies, we typically mean companies listed on AIM or those with a market capitalisation of less than £1bn, which are not within the FTSE 100.

UK EQUITY SCREEN

Quest for low-risk winners

Following the global financial crisis in 2008, companies enjoyed a long period of improving rates of return, as benign economic conditions and a lack of cost pressures enabled many to endure even stretched financial positions with reasonable comfort.

However, much has changed in recent years, after a spike in geopolitical unrest which has left the global outlook far less certain than it was a decade ago.

Inflation/interest rates: After more than a decade of benign inflation and interest rates, companies have had to deal with higher operating costs as a result of the 2022/2023 inflation spike and an accompanying sharp increase in finance costs due to higher interest rates.

Geopolitical risks: Few investors would have anticipated the extent of the geopolitical disruption we have experienced in the last two years. War in Ukraine and the Middle East, the prospect of a second Trump presidency – despite his looming custodial sentence – and a potential invasion in Taiwan by China are all creating a sense of uncertainty in the markets.

Reversal of globalisation trends: The above events have played out alongside challenges such as the clear reversal of globalisation, which has been the key driver of global economic prosperity for several decades.

The cost of decarbonisation: It's worth noting that not all risks are bad, with decarbonisation now a key focus for most developed market companies. However, while this may prove to be an opportunity for some companies, for many it will require a heavy level of investment – and for others still, it may put their entire business models in jeopardy.

Given all of the above risks, we believe that our house investment style – to select high quality stocks at a reasonable valuation – makes more sense than ever.

To add a further level of comfort and security to how we assess equities, we have used the Quest® Risk Rater (QRR) – a proprietary metric that assesses risk from several angles, whose key purpose is to highlight what is not always evident from analyst research or company reports. This metric is intended to reflect companies' potential vulnerability to financial stress, which can manifest in any number of places on the balance sheet and within accounts.

Below is a list of UK stocks that we believe constitute an attractive blend of high quality (good cash conversion, high margins/returns) and low risk (QRR score in the top 20%), while simultaneously not trading at excessive valuation multiples.

Simon McGarry
Head of Direct Equity Research

			12-month forward			5-year average				Price change over	
Stocks	**Industry**	**Market cap (£m)**	**Price earnings ratio**	**Dividend yield**	**Dividend cover**	**Cash conversion**	**EBIT* margin**	**Return on capital employed**	**QRR percentile 1 = highest risk 100 = lowest risk**	**3mths**	**12mths**
Conditions		**> £300m**				**> 90%**	**> 20%**	**> 20%**	**> 80%**		
RELX PLC	Professional services	64,154	27.3	1.9%	2.0	95%	30.7%	23.4%	85	11%	33%
Sage	Software	12,678	32.8	1.7%	1.8	120%	20.9%	20.6%	85	7%	70%
Schroders	Capital markets	7,000	11.2	5.8%	1.3	119%	22.6%	95.4%	85	-14%	-15%
Auto Trader	Interactive media and services	6,316	21.9	1.5%	3.1	103%	66.1%	57.3%	94	-3%	20%
Rightmove	Interactive media and services	4,380	21.2	1.8%	2.6	100%	71.3%	715.0%	99	-4%	2%
Hargreaves Lansdown	Capital markets	3,488	11.7	6.4%	1.3	93%	56.2%	347.5%	97	2%	-4%
Games Workshop	Leisure products	3,308	21.6	4.3%	1.1	92%	36.4%	88.7%	100	2%	9%
IG Group Holdings	Capital markets	2,731	7.3	6.5%	2.1	117%	45.8%	58.4%	89	-5%	4%
AJ Bell	Capital markets	1,246	16.9	4.3%	1.4	105%	37.7%	162.4%	100	-5%	-11%
Moneysupermarket.com	Interactive media and services	1,180	12.4	5.8%	1.4	104%	26.5%	37.6%	83	-21%	-10%
Alfa Financial Software	Software	499	22.1	1.2%	3.9	127%	28.4%	69.8%	97	21%	27%
Paypoint	Financial services	350	6.9	8.9%	1.7	118%	29.1%	64.4%	94	-5%	5%

Source: Quest®

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Past performance and future forecast figures are not a reliable indicator of future results.

US EQUITIES

In full flow

Veralto Corp (Veralto) is a market leader in water treatment and package marking that separated from Danaher Corporation (Danaher) in October 2023. The business operates across two main segments: Water Quality (WQ) and Product Quality and Innovation (PQI).

The larger water quality segment accounts for approximately 60% of total revenue. It designs, manufactures, and markets a portfolio of products that support the full water cycle via key brands such as Hach Company, ChemTreat, Inc. and Trojan Technologies Ltd. These include products that measure water quality, treat it to make it safe for drinking and discharging into the environment, and which are then sold to utility, environmental and industrial businesses.

The attraction of this segment lies in its revenue stability, with demand for products supported by the structural imbalance between the demand and supply of water. Since the 1980s, water consumption has risen steadily at a rate of 1% annually. This trend is projected to continue until 2050, due to population growth, the rising water intensity of industrial processes, and heightened agricultural needs. Moreover, the compounding effects of extreme weather events and climate change have exacerbated the strain on water resources, intensifying the supply-demand imbalance and subsequently increasing demand for Veralto's water quality technologies.

The company's PQI segment is a leader in packaging design, marking, and traceability applications for consumer, pharmaceutical and industrial products. Brands include Videojet Technologies Ltd, Esko Graphics UK Ltd, X-Rite, Inc. and Pantone LLC. The key driver of this segment is the increasing regulatory demand for track and trace products in the supply chain, to manage recalls and ensure product quality meets regulatory standards.

Veralto also operates within a highly resilient business model. Its large installed base of mission-critical products generates strong aftermarket sales in the form of consumables like chemicals or ink, spare parts and maintenance revenues. Approximately 60% of Veralto's total revenue stems from recurring aftermarket sales.

Furthermore, the company benefits from a highly respected management team with a history of operating within the Danaher Business System. This team are working towards continuous improvement in operational efficiency, with Veralto's CEO, Jennifer L. Honeycutt, having more than 20 years' experience at Danaher.

In summary, Veralto presents a compelling investment opportunity, bolstered by two successful revenue streams, a resilient business model and an experienced management team focused on operational excellence.

Dan Smith CFA
International Equity Analyst

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Veralto Corp

Share price	US$87.5
Market cap	US$21.5bn

	2023A	2024F	2025F
Revenue (US$ bn)	5.0	5.1	5.4
Earnings per share (US$)	3.19	3.27	3.55
Dividend per share (US$)	0.00	0.30	0.37
Dividend yield	0.0%	0.3%	0.4%
Price earnings ratio	25.1	26.6	24.5
Financial year end*			31 December

Source: Quest®
Note: 2024 and 2025 are forecast years

These figures above are shown in US dollars (US$). These returns may differ significantly when converted to other currencies at the prevailing exchange rates.

INVESTMENT TRUSTS

Sense of debenture

As the name might suggest, the Law Debenture Corporation plc (Law Debenture) was founded by prominent Lawyer Stanley Boulter in 1889, to facilitate the issue of corporate debentures. As with all investment trusts, the strategy has evolved considerably over time, and since the 1980s it has boasted a unique asset structure on the London Stock Exchange.

There are two separate elements to the trust, the first being a diversified, UK-focused equity portfolio with a contrarian investment style. The equity strategy has been under the stewardship of astute value investor James Henderson for over two decades, and has benefitted from the addition of Laura Foll since 2011.

It is worth noting that the trust has an overweight to medium- and smaller-sized companies, and the managers will gear the portfolio*. Both factors imply that there is the potential for higher levels of volatility, albeit hopefully tempered by a valuation discipline.

The other asset is a private company called 'Independent Professional Services' (IPS), which amounts to around 20% of the net asset value (NAV)*. IPS is in fact one of the largest and longest-established UK providers of pension trustee services, as well as being a leading independent corporate trustee.

This combination of assets has generated impressive long-term returns. It has also delivered an excellent dividend track record, which has been consistently bolstered by the cash generation prowess of the IPS business (almost 40% of the trust's 2023 dividend was funded by the IPS business, up from 25% in 2022). For further reference, Law Debenture has generated a 10-year compound annual dividend growth rate* of 7.9% to the end of 2023, and has now surpassed 14 years of consecutive dividend growth, which makes it a 'next-generation dividend hero'. Once it hits 20 years, it becomes a fully certified dividend hero.

Today, you can invest in Law Debenture at an attractive and unusual discount of more than 4% at the time of writing. The yield is also north of 4%, backed by an extremely strong balance sheet.

Kamal Warraich
Head of Equity Fund Research

*See glossary for definition.

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Law Debenture Corporation

Share price	786p
Market cap	£1bn
NAV* per share	834p
Discount	5.8%

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Profit takers

In addition to providing insight and analysis of particular investment opportunities each month, we also review stocks that have shown strong performance in recent months and as a result investors might consider taking profits. Please do contact your Investment Manager to discuss any of these ideas, or indeed any aspect of your portfolio held at Canaccord Genuity Wealth Management.

							Performance over previous		
Company name	Market cap (£m)	Share price (p)	Prior FY dividend per share (p)	Current FY dividend per share (p)	Prior FY price earnings ratio	Current FY price earnings ratio	1 mth	3 mths	6 mths
Wincanton	733	600	13.2	13.5	8.1	19.2	18%	93%	117%
Trustpilot	835	199	0.0	0.0	60.3	102.9	5%	32%	104%
Rolls-Royce	35,688	427	0.0	2.7	9.3	28.8	15%	43%	93%
Ashtead Technology Holdings	605	760	1.0	1.1	15.9	13.4	11%	23%	78%
Mortgage Advice Bureau	521	912	28.1	29.2	31.1	25.2	11%	15%	70%
Greencore	550	119	0.0	2.2	8.1	12.9	17%	21%	62%
Hochschild	655	127	0.2	1.1	9.7	7.3	39%	20%	60%
Alphawave IP Group	1,272	175	0.0	0.0	-68.5	24.0	2%	34%	55%
Ascential	1,351	304	0.0	125.0	28.8	25.2	1%	3%	54%
Next 15 Group	913	924	14.6	15.6	12.1	10.1	2%	12%	54%
Clarkson	1,232	4,010	102.0	105.4	10.0	15.5	12%	27%	51%
Intermediate Capital	5,884	2,054	77.5	80.4	16.9	15.1	9%	22%	50%
Spirent Comms	1,144	200	2.2	4.4	28.5	35.2	90%	63%	48%
CRH	46,805	6,828	104.4	113.9	11.7	16.4	10%	27%	48%
Ocean Wilsons Holdings	499	1,410	66.7	73.1	10.7	8.9	4%	20%	47%
Craneware	770	2,200	27.8	28.8	27.6	30.4	5%	26%	46%
Antofagasta	20,102	2,039	28.3	26.5	23.0	33.3	15%	19%	44%
Cairn Homes	880	136	5.5	9.3	8.6	8.9	7%	19%	44%
TUI	3,314	653	0.0	0.0	8.5	7.7	17%	5%	44%
Melrose Industries	8,861	673	5.0	7.3	14.3	24.9	8%	18%	42%
Paragon Banking Group	1,444	691	37.4	38.2	7.4	7.4	8%	0%	41%
Wise plc	9,516	929	0.0	0.0	39.9	30.6	4%	5%	41%
DS Smith	5,460	397	18.0	17.7	8.0	12.1	25%	28%	40%
Keller	765	1,048	45.2	47.8	5.4	7.6	21%	19%	39%
Hollywood Bowl	565	330	11.8	12.1	10.4	15.1	4%	9%	38%
Vistry Group	4,184	1,230	40.4	48.2	9.7	13.8	23%	34%	38%
Genuit Group	1,094	441	12.4	12.5	13.6	17.6	10%	9%	38%
Bloomsbury	435	528	11.8	12.4	16.3	9.6	-5%	12%	36%
3i Group plc	27,089	2,809	53.0	58.9	2.8	6.8	15%	15%	36%

Source: Quest®

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Glossary

The glossary is not intended as a technical definition as most of these metrics can be calculated in a number of different ways.

Common Equity Tier 1 (CET1)	Covers liquid bank holdings, such as cash and stock, held by a bank or financial institution. CET1 was a measure introduced in 2014 to protect from financial crisis.
Compound annual growth rate (CAGR)	Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.
Dividend per share (DPS)	Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued.
Dividend yield	Dividend per share divided by the share price, often expressed as a percentage. For historic periods the average share price for the year is used, for forecasts the current share price is used.
Earnings per share (EPS)	An indicator of a company's profitability, it is the portion of profit after tax allocated to each outstanding share in issue.
EBITDA	Earnings before interest, taxes, depreciation, and amortisation (EBITDA) gives an indication of a company's financial performance.
Economic moat	Refers to a business's ability to maintain competitive advantages in order to protect its long-term profits and market share from competing firms.
Enterprise value	Enterprise value is defined as equity market capitalisation plus net debt. This metric may be used to value a company for a potential takeover.
Financial year end	Financial year end refers to the completion of a 12-month accounting period that may differ from the calendar year. If a company's financial year ends 31 March, H1 refers to the period between April and September, and H2 refers to the period between October and March.
Gear the portfolio	Gearing is the relationship, or ratio, of a company's debt-to-equity (D/E). It demonstrates the extent to which a firm is funded by lenders vs. shareholders. It is also known as the company's financial leverage.
Gross margin	Gross margin is net sales less the cost of goods sold. It's the amount of money a company retains after incurring the direct costs associated with producing the goods it sells and the services it provides.
Growth stocks	A company that is expected to deliver better than average organic revenue and earnings growth over the medium term.
Net asset value (NAV)	The net asset value (NAV) represents the net value of an entity and is calculated as the total value of the entity's assets minus the total value of its liabilities. Most commonly used in the context of a mutual fund or an exchange-traded fund (ETF), the NAV represents the per share/unit price of the fund on a specific date or time.
Next twelve months (NTM)	Next twelve months (NTM) refers to any financial measure that is forecast for the immediate next twelve months from the current date.
Price earnings ratio (P/E)	Share price divided by EPS. For historic periods the average share price for the year is used; for forecast years, the current share price is used. It shows how much investors are willing to pay per pound of earnings.
Price to tangible book value (PTBV)	The valuation ratio that compares the price of a security to a company's physical assets, according to their balance sheets. PTBV is considered an accurate estimate of the company's net value to shareholders as it excludes intangible assets such as trademarks and intellectual property.
Quest®	Canaccord Genuity's proprietary online valuation and analytical tool which combines consensus market figures with the Quest® Discounted Cash Flow (DCF) Valuation Model.
Return on Tangible Equity (RoTE)	Calculated by dividing the net earnings applicable to shareholders by the average monthly tangible common shareholders' equity. It is the total shareholder's equity once preferred stock, goodwill and any other intangible assets have been identified and removed.
Short selling	Selling of a stock that the investor does not own. Considered a high-risk strategy that involves speculating on the decline of a stock or security's price, by borrowing shares and then selling them to buyers willing to pay the market price.
Tables	F – forecast results, figures based on the combined estimates of analysts covering the company. A – actual results, figures based on the company's published results.
Value stocks	Investors looking for 'value' seek out stocks which they believe have been undervalued by the market and are trading for less than their intrinsic worth. They are viewed as trading at a lower price than justified when measured against metrics such as earnings, profit margins or sales.

Investments discussed in this document may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and resources, and if in any doubt, seek specific advice from an investment adviser. This document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and we are not therefore subject to any prohibition on dealing ahead of its dissemination of investment research.

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Investment Recommendation:

Date and time of first dissemination: 08.04.24 - 10AM GMT
Date and time of production: 08.04.24 - 10AM GMT

Buy:

Unless otherwise stated, at the time of the recommendation we consider there is a material upside to the current share price.

Price:

Prices are as at market close on 03.04.24

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Past performance is not necessarily a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested.

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