

# Newsletter

## Pilling & Co

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## ECONOMICS & MARKETS

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### Over There

2012 is an election year in the United States. It is, lest we forget, also an Olympic year and, of somewhat less stature, a European Football Championship year. As Martin Sorrell of WPP has observed in the past, these quadrennial years are usually good for advertisers and stimulating for a whole host of other businesses. Are they good for the stockmarket though? The FTSE 100 posted gains through the years 1988, 1992, 1996, 2004 but 2000 was poor and 2008 was horrid. So it is no one-way bet. That said, one has to wonder that America has assembled enough of the foundation work on which to build a sustained recovery, free, as it is, of so many of the limiting factors that peg back Europe: health, social care, pensions, red tape, bailouts. If America leads, at what distance might we follow?

### Over Here

The UK is different and can best be viewed as sitting somewhere between the two extremes of the US and the Euroland Europeans. So whilst unemployment reduces in the US and soars in the Mediterranean we appear to be on a pivot point and could go either way. If we avoid recession it shall be by a scrape. We get the feeling our exporters are doing well but it is building back from a narrow base. In recent discussions with fund managers the consensus says that Britain only has one unarguably world leading company in Rolls Royce. All of our other big companies have to accept they are playing catch up to someone else, somewhere else. There is a chance for that to improve if our currency keeps our exporters

competitive and they are able and willing to invest in their product. The recent budget made some progress in encouraging research and development, enticing companies to base themselves in the UK by the lure of lower corporation tax rates and further expanding enterprise zones to under-invested areas.

### An AAA-rated economy

Unfortunately for George Osborne, his 2012 Budget received howls of derision in the Press for alterations to age-related tax relief that on average will reduce income for pensioners by 0.25% in 2014\*. The reduction in the highest rate of income tax to 45% was the main attack point for the Labour opposition. Meanwhile there are enough relaxations and simplifications to do little to deter Fitch and other ratings agencies to continue a negative outlook on the UK's coveted triple-A rating. This is unwelcome because talk of super-long dated or perpetual gilt issuance smacks of an opportunity that is fast running out. If people are willing to lend Her Majesty's Treasury large amounts of money at ridiculously low rates then the Chancellor would be daft not to oblige. And fast!

All in all we continue to look favourably upon the larger, income generating equities and progressively less so towards smaller companies with less mature balance sheets and/or greater indebtedness. Fixed interest thoughts are split because whilst higher yielding stocks have attractions, sovereign bonds have few.

\* Source BBC/Institute for Fiscal Studies

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### Ask about our: -

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## New Launch

### Provident Financial 7% Bond 2017

Provident Financial is to launch a sterling fixed rate bond with a 5 and a half year life. A coupon of 7% will be paid semi-annually in arrears in April and October each year. The bonds will redeem on 4<sup>th</sup> October 2017 at par.

The bonds are expected to be tradable on a daily basis.

#### Offer Period

The books opened on 19<sup>th</sup> March and will close on 29<sup>th</sup> March. The minimum investment is £2000 and in multiples of £100 thereafter.

#### Suitability

This issue is appropriate for medium term investors looking to generate income. Income will be paid gross. This may be advantageous if buying in a tax free account, but there is no guarantee this advantage will remain. Provident Financial is a FTSE 250 company with a current market capitalisation of £1.6 billion. Credit rating agencies give the bond a triple B rating – the lowest for an investment grade issue hence any further downgrade could adversely affect the price. It is important to note that realising the bond prior to maturity by selling in the market could result in a loss of capital.

\*Source of information Provident Financial offer document.

#### Risk Warning

We regard the issue as **medium risk**. It is possible that Provident Financial may fail. If that happens you may lose some or all of your investment.

An FSA base prospectus is available on request.

If you wish to make an investment please contact us before 28<sup>th</sup> March on 0161 832 6581. Staff and Partners of the firm may be investing in this bond for their own personal accounts.

If you have any doubts about the suitability of this investment please contact us to discuss this before investing.

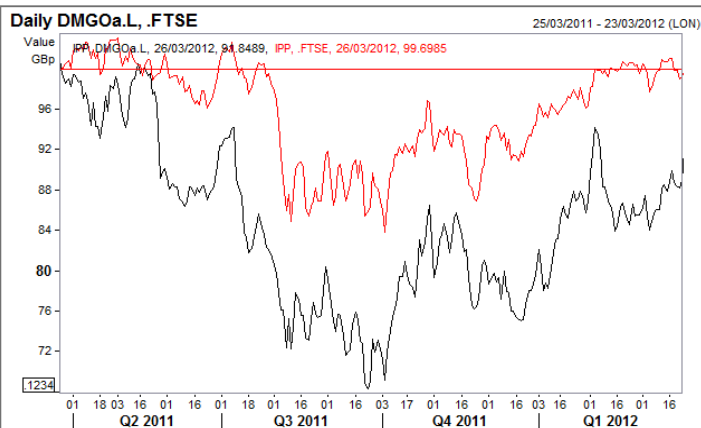
We will receive 0.375% commission from the issuer and therefore will reduce our normal brokerage accordingly.

Please note that the bonds are expected to be trading on the Order Book for Retail Bonds (the ORB) of the regulated market of the London Stock Exchange Plc. The timing of the Newsletter is very close to the cut-off point for buying the bonds at launch, so a quick response is required, alternatively, they can be bought in the secondary market.

**Daily Mail & General Trust****Publishing****Medium Risk****Buy 446.6p**

The media conglomerate—responsible for the Daily Mail and The Mail on Sunday, amongst other national titles have performed strongly recently, organic growth in revenue of 2%. It was noted however January had been a weak month for advertising. The company stated the full year outlook is looking 'unchanged' and the company's EPs range will be approximately 45p-48p which is encouraging. Recent news in the sector is Mashable social media news and web tips company has been acquired by CNN for \$200m, which highlights DMGT's hidden value. The Mail Online has previously been valued by Panmure Gordon at £120m equating to 31p a share, this is the world's second most visited English language website. The non-print Mail assets account for £254m revenue. DMGT also has a 67% stake in Euromoney Institutional Investor this diversifies the company, however also gears them up to pursue the remaining shareholding for the possible takeover.

The balance sheet is strengthening year on year as they look to buy back expensive debt. The shares paid 16.3p (3.65% historic yield) dividend and is estimated to be 18p this year up another 10.4% covered 2.58x. With the Olympic Games, European Championships and the US Presidential Election this year there is likely to be a boost in revenue generated by demand and improvements in the advertising sector as a knock-on effect. Analysts have put 600p price target on the stock.



Year	FRS3 Pre Tax Profit	FRS3 Earnings per Share	Dividend per Share
2008	-£68.1m	-0.20p	14.7p
2009	-£301m	-57.4p	14.7p
2010	£146m	43.5p	14.9p
2011	£124m	29.1p	16.3p

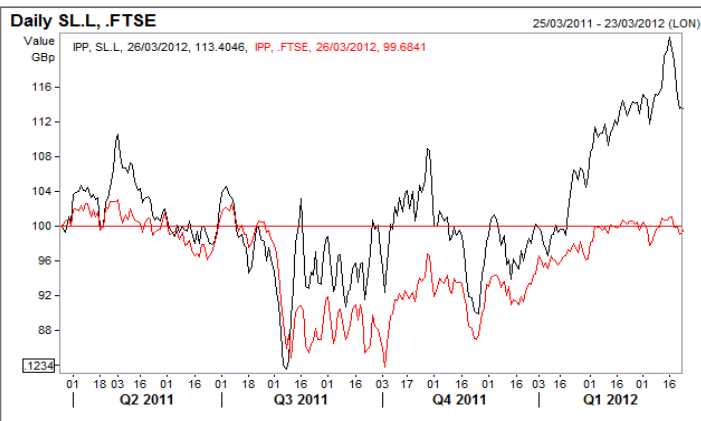
Market Cap: £1691m  
 P/E Multiple: 15.99x  
 Turnover: £1990m  
 Current Dividend Yield: 3.49%

**Standard Life****Life insurance****Medium Risk****Buy 233p**

Standard Life is, in many ways, seen as a traditional life assurer of the with-profits age. This ignores the enormous strides it has taken before and specially since demutualization. The company operates in the personal life and long-term savings market, but has a growing foothold in the corporate market: pensions and protection for employees. It is the margins from this latter market that could be a strong performance drive for the group. Admittedly, there are still old habits that need to be thrown off. Outsourcing of non-core activities may help.

The company recently unveiled its full-year results, the highlight being a 28% rise in operating growth before tax from continuing operations, from £425m to £544m. The company also recommended a 6.2% dividend increase, from 13p to 13.8p. David Nash, Chief Executive Officer, spoke optimistically of the future: "While the economic backdrop remains uncertain, we are confident that the strong capital position in operational and capital efficiency mean that we are well on track to achieve an on-going improvement in financial performance."

At 233p, the shares have a prospective yield for 2012 of around 6%. This is partly because of a jaundiced view of all financial stocks. This may not be justified.



Year	FRS3 Pre Tax Profit	FRS3 Earnings per Share	Dividend per Share
2007	£509m	21.4p	9.2p
2008	-£406m	6.9p	11.8p
2009	£410m	7.5p	11.8p
2010	£971m	18.3p	12.4p

Market Cap: £5500m  
 P/E Multiple: 17.99x  
 Turnover: £1579m  
 Current Dividend Yield: 5.32%

## At Your Discretion

Our Discretionary Management Service has never seemed so relevant to clients, many of whom are bemused by the economic dislocation that surrounds us. Whilst the investment managers at Pilling & Co do not have all the answers to the problems that confront us they do have certain advantages over ordinary private clients.

Advantages that are invaluable include:-

- Research that comes in from many dependable sources.
- Regular meetings with fund managers, analysts and economists.
- Regular meetings with the management of companies that we use within our portfolios.
- Up-to-the minute economic and corporate news as it arises.

All of this enables us to offer a competent and bespoke service tailored to your investment objectives and risk specifications.

The Discretionary Management services incorporates:-

- The highest level of service, managing investments under a “Contract of Care”.
- The Discretionary Services would be most suited to those clients who do not want to or are not able to closely monitor their investments.
- To establish, maintain and monitor investments under strict investment guidelines.
- A six monthly report is produced encompassing an economic and portfolio review, statement of transactions and a reconciliation of performance.
- In addition to the above, quarterly valuations will be provided.
- 1% annual fee payable on the first £250,000, 0.5% thereafter payable half yearly in arrears.

We also offer an advisory service if you wish to retain control of your investment whilst utilising our management expertise.

For further information please contact our Investment Management Department on:

**0161 819 4835**

**Please note that the value of your investments and the level of income produced can fall as well as rise and you may not get back the full amount that you invested. Past performance is not a guide to future returns.** Any opinions expressed should not be construed as advice for investment in any product or security featured. Some shares may use part of the capital invested to provide an income. If you are uncertain about the suitability of any investments you should take independent advice (including tax advice) before investing. The information herein is based on current Inland Revenue rules which are subject to change. Any opinions or information provided has been based on sources we believe to be reliable. Pilling & Co staff and/or principals may hold investments featured. All investments are subject to our current terms and conditions and charges which we reserve the right to change. Whilst every effort is made to ensure accuracy we cannot be held liable for errors or omissions. A copy of our internal complaints procedure is available on request together with the Financial Ombudsman Service (FOS) leaflet explaining their operation. Pilling & Co is registered under the Data Protection Act as a controller of information.

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