

# NEWSLETTER



Exchange House, Bury

## SNIPPETS

### SERVICES

- Advisory & Execution-Only Dealing
- Self-Select ISAs
- In-House settlement
- Nominee & Safe-Custody
- SIPP Investment Management

### HISTORY

Founded in Bury in 1885 by local accountant James Sharp, the firm has remained independent since.



| Indices      | 31/03/11  |
|--------------|-----------|
| FTSE100      | 5,908.76  |
| FTSE250      | 11,591.98 |
| FTSE AIM A/S | 901.36    |
| Dow Jones IA | 12,319.73 |

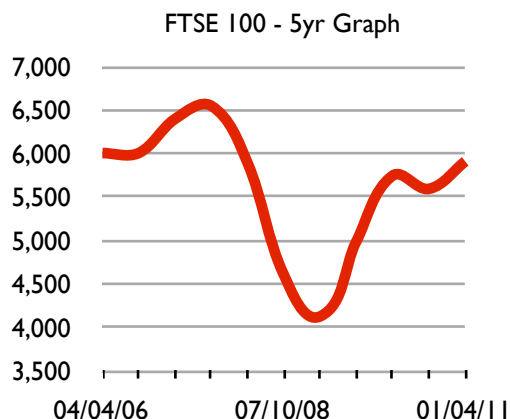
Bank Interest Rates Remain Low, so...

## Keep the Dividend Coming In



Clients will be fully aware of the virtues which we look for within our investment strategy. We have followed companies whose directors & management have personal money invested in the companies they run. Businesses that maintain a reasonable amount of cash on the balance sheet and are cash-generative, are often more credible as investments. This, in turn, allows us to look at the **dividend policy** that companies maintain.

Although stocks that pay dividends tend to fall out of favour in bull markets, the longer term scenario of funding and reinvesting dividends is the key to healthy returns. We remember **PZ Cussons** - trading on a P/E of 7x, dividend yield of 7%, capitalised at £220m & with cash of £120m - being out of favour in 2000/01 at the height of the "Technology Boom", which of course proved itself to be a short-term experience!



As an example of the benefits of dividend reinvestment, £100 invested into UK stocks in 1899 and 1945 would respectively be worth £24,133 and £4,370 today if the dividends had been re-invested. Without being reinvested, the value would be £180 and £255 respectively! (source: Moneyweek)

**MOVING OFFICE** - After more than 20 years in our current location, during which the staff numbers have risen from single figures to almost 20, James Sharp & Co will be moving to new office premises in the summer (exact date to be confirmed). As anyone who has visited us recently will know, we have outgrown our current office space and the move to a more open-plan environment will give us space to increase our staff levels to improve service to clients and also allow us to meet visitors in more comfort.

Our New Address will be:  
**The Exchange, Bank Street, Bury, Lancashire, BL9 0DN**

# JS&Co

## NUGGETS

Data as at 31/03/2011, per FT and/or Bloomberg

|  |  |  |
|--|--|--|
| <b>GREGGS</b><br><br>Retailers                           | <b>Mid Price</b> 509.5p<br><b>P/E Ratio</b> 13x<br><b>Div Yield</b> 3.75%  | <p>We are conscious of pressure on consumer spending but believe Greggs commands a sustainable position as a discounter in a large defensive market. With a long-term track record of cash generation from its bakery &amp; sandwich outlets, store expansion will continue. From its current level of 1,500 stores, management believe there is scope to increase the numbers to 2,000. Improving the productivity within the existing estate is also a management priority. Share buy-backs have occurred as opportunities have arisen. The dividend has been increased for 26 consecutive years.</p>  |
| <b>PZ CUSSONS</b><br><br>House, Leisure & Personal Goods | <b>Mid Price</b> 326.5p<br><b>P/E Ratio</b> 20x<br><b>Div Yield</b> 2.0%   | <p>We have been a long standing admirer of PZ Cussons. The shares have retreated from 400p to the current level following a slowing of sales in Europe due to reduced demand in Greece and high levels of discounting in Britain. Increasing raw material prices coupled with a weak consumer environment and continued promotional activity have led to analysts reducing profit forecasts. Sales in Nigeria have also slowed ahead of elections although the company expects an upturn once the election is concluded. Having bought the tanning business, St Tropez, PZ Cussons will create a beauty division including Charles Worthington (the hair care business) and The Sanctuary Spa and Skincare range. We believe the proven management has the resources to continue to drive PZ Cussons forwards.</p> |
| <b>TRETT</b><br><br>Speciality Chemicals                 | <b>Mid Price</b> 374p<br><b>P/E Ratio</b> 9x<br><b>Div Yield</b> 3.7%      | <p>Trealt is a world-leading producer of flavours &amp; fragrances. It also supplies products to the food, beverage, perfumery, cosmetic &amp; pharmaceutical industries. Founded in 1886, it exports to over 90 countries worldwide. A trading update released on 22<sup>nd</sup> March indicated "strong sales growth across all three operating companies" and "order books remain strong". As a consequence, "full year results are now likely to be materially higher than previously anticipated".</p>   |
| <b>DEVRO</b><br><br>Food & Beverages                     | <b>Mid Price</b> 282.5p<br><b>P/E Ratio</b> 10.9x<br><b>Div Yield</b> 2.6% | <p>Following full year results in February, we remain buyers of this company. When we originally mentioned Devro in Spring 2009, it carried £45m debt on the balance sheet. Through positive management, debt at the year-end has been reduced to £12m. Capital expenditure across all manufacturing sites this year will total £45m. The dividend has been increased 40% this year. Long-term prospects remain good for this world player in edible collagen casings for the meat industry. A substantial turnaround with more to come!</p>   |

### AIM - not suitable for ISAs

|   |  |   |
|---|--|---|
| <b>NICHOLS</b><br><br>Food & Beverages  | <b>Mid Price</b> 467.5p<br><b>P/E Ratio</b> 16x<br><b>Div Yield</b> 3.2% | <p>Recent results from Nichols reaffirm our positive stance on the company. Sales of £84m (Vs £72m previous year) produced a profit before tax of £15.1m (Vs £12.2m). The dividend for the full year at 13.55p has been increased by 11.5%. Significant growth from Africa and the Middle-East increased revenues by 24% which hedged against the challenging UK consumer market and diluted the impact of raw material inflation. Net cash increased from £11.2m to £15m with positive net cash flow of £3.8m during the year. A new range of Levi Roots fruit drinks will be launched very soon.</p>  |
| <b>FULCRUM UTILITY</b><br><br>Utilities | <b>Mid Price</b> 18.25<br><b>P/E Ratio</b> N/A<br><b>Div Yield</b> Nil   | <p>Long standing clients will remember the successful growth and ultimate takeover of East Surrey Holdings, which comprised water supplies (Sutton and Croydon Boroughs) and oil-to-gas heating conversion (Belfast). The former Chief Executive of East Surrey is now the Chairman of Fulcrum. Having bought an unregulated gas connection service from National Grid in July 2010 for a nominal sum, we feel the company is worthy of consideration as a recovery prospect to form a small part of a mixed portfolio. Capitalised at £27m, Fulcrum received £8.2m in February from National Grid against the surrender of tax losses. This sum will be used to fund working capital. Patience may be required in acquiring stock.</p> |

# JS&Co

## SUGGESTIONS

Data as at 31/03/2011, per FT and/or Bloomberg

### INCOME IDEAS

The Bank of England interest base-rate has remained at 0.5% for OVER 2 YEARS, causing savers to look elsewhere for income to support their living standards.

We make no apology for repeating our previous advice - preference shares still offer high yields when compared to underlying bank rates, albeit with higher risk. Issuers such as **Aviva, Royal & Sun Alliance & General Accident** each have cumulative preference shares offering around 7% return. **Ecclesiastical Insurance** has an issue of 8.625% Non-Cum Preference Shares offering 7.7%

To reduce risk of exposure to individual shares, **Henderson High Income Trust & New City High Yield Fund** are broadly based, have a good track record and remain worthy of consideration.

### SECTOR COMMENT

#### Stock Exchanges

For some years we have invested in the Stock Exchanges of the world, firmly believing that consolidation is the way forward to improve efficiencies in international financial markets.

Mergers were firmly off the agenda as finances were conserved during the post-recession slow-down. However recent events indicate the re-emergence of this strategy and the days of some national exchanges seem numbered. The **London Stock Exchange**, which controls Boursa Italiana, has announced plans to merge with the **Toronto Stock Exchange**. The **Singapore Exchange** recently announced a tie-up with the **ASX of Australia**, though it has since been blocked by the Australian Government; a world-wide giant will be formed if **NYSE Euronext** falls to the advances of either **Nasdaq** or **Deutsche Borse**. Nationalistic pride and competition issues mean that these cross-border deals can become long-winded and may yet fail to come to a conclusion; yet we feel more mergers are likely over time. We continue to hold **Bolsas Y Mercados**, the Spanish Stock Exchange.

#### BRITISH AMERICAN TOBACCO

Tobacco

**Mid Price** 2502p  
**P/E Ratio** 13.2x  
**Div Yield** 4.9%

Full year results in February showed an increase in market share in the group's top 40 markets. Free cash flow increased by 23% to £3,240m, equivalent to 92% of adjusted earnings. Given the Chairman's comment "we can continue to deliver superior shareholder returns in 2011 and beyond", we retain our support for the shares. The dividend was increased by 15% in 2010.

#### VODAFONE

Telecoms

**Mid Price** 176.5p  
**P/E Ratio** 8.4  
**Div Yield** 5.4%

Vodafone group provides mobile data & voice communications worldwide. Having recently announced the sale of its stake in SFR to Vivendi for €8bn, further disposals seem likely, which should further boost cash reserves. The steady cash flow underpins a strong dividend and growth potential still exists in many emerging markets.

#### DIAGEO

Beverages

**Mid Price** 1185p  
**P/E Ratio** 16x  
**Div Yield** 3.2%

We continue to recommend Diageo, despite first half-year revenues missing analysts' expectations in February. However, we believe lacklustre performance in European markets to be the reason for the profit shortfall and we would expect this performance to reverse over time.

The brands include Johnnie Walker, Smirnoff, Captain Morgan, Guinness, Red Stripe & Bailey's, which are cash-generative and will support future acquisitions.

#### MORRISON

Retailers

**Mid Price** 276p  
**P/E Ratio** 11x  
**Div Yield** 3.9%

Capitalised at £7.5 billion (the same as M&S, Dixons and Ocado combined), the company has one of the strongest balance sheets in the sector. Profits of £874m were achieved on sales of £16.5 billion. Debt was £817m.

Around 90% of its properties are freeholds and the company has begun buying-in shares for cancellation to return £1 billion. The company has stated that the dividend will be increased by at least 10% for the next three years. Growth will come from the launch of a small number of convenience stores along the M62 corridor and a move into internet shopping.

There remains 7m households without an easy access Morrison's store indicating plenty of potential for store expansion.

#### TESCO

Retailers

**Mid Price** 381p  
**P/E Ratio** 12x  
**Div Yield** 3.9%

Tesco continues to dominate the UK retail scene, but also has operations as far afield as Poland, Czech Republic, Thailand and Ireland. Its success lies in its diversification - fuel, food, non-food and even used-cars are supplied to the consumer via convenience stores, supermarkets and internet. Now the second biggest retailer (by market cap.) in the World, Tesco takes nearly £1 in every £7 spent in UK retail (not just food).

Tesco is a classic defensive play in troubled times and appeals to all shoppers - from discount to premium.

## JUNIOR ISAs

The Coalition government has recently released further details regarding its new tax-free children's savings scheme. Junior ISAs, the replacement for Labour's Child Trust Funds (CTFs), will be introduced in the autumn but will not include any government contribution. The Treasury has set the yearly contribution limit at £3,000 and the annual limit for existing CTFs will be raised to the same £3,000 level. As with CTFs, any cash put into Junior ISAs will be locked-in until a child reaches the age of 18. The rules regarding investments will be identical to those for 'adult ISAs'. James Sharp & Co is currently examining the possibility of offering a Junior Stocks and Shares ISA to clients and we will update clients in due course.

## WEBSITE

We have a new web-site under construction which will go live very soon. Please visit [www.jamessharp.co.uk](http://www.jamessharp.co.uk) often! The site will be more interactive and give clients a chance to register for share suggestions and comments. It will also eventually offer a secure access to portfolio valuations for clients who hold shares in our nominee system.

## NOMINEES

As Stock Exchange Settlement disciplines become ever tighter, we continue to encourage clients to hold their shares in our nominee system. As a reminder, we undertake the safe-custody of your investments. Rather than receiving share certificates, assets are held in a secure electronic settlement system on your behalf. We deal with any corporate actions (dividend claims, rights issues, takeover bids etc) by direct liaison with the underlying client.

Having absorbed the increasing costs of certificated dealings for some years,

*We look forward to discussing our thoughts with you...*

and having now invested heavily in our nominee system, please note that certificated dealings will incur a **charge of £15** imminently

## ISA ALLOWANCE 2011/12

In the June 2010 Budget, the Government confirmed that from 6 April 2011 the annual ISA subscription limits would increase in line with the Retail Prices Index figure, using the RPI figure for the September before the start of the new tax year. The resultant limits are then rounded to the nearest multiple of 120, so that individuals who save monthly will be able to more easily calculate their monthly savings.

HMRC has confirmed that for the tax year 2011/12, the overall ISA subscription limit will be £10,680 (up £480 from £10,200 in 2010/11) of which up to £5,340 (up £240 from £5,100 in 2010/11) can be subscribed to a Cash ISA.

James Sharp operates a **Self-Select ISA** allowing clients to choose the individual investments that make up the account. ISAs can be tax efficient investment vehicles for UK residents, particularly for higher-rate tax payers, and so we often recommend clients to make full use of such opportunities.

## ISA TRANSFERS

ISAs can be easily transferred between ISA Manager, without losing the ISA Status. If you would like to consolidate your existing ISAs into one Self-Select ISA, we would be delighted to manage it for you.

We are also able to accept transfers of CASH ISAs, which can then be invested to increase income - if you are unhappy with the interest rate you are receiving with your current provider, please contact **Sarah Entwistle** for guidance.

## CONTACTS:

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**RISKS:** Readers are reminded that **investments carry risk**. Share prices can fall as well as rise and the investments outlined in this Newsletter may not be suitable for every investor - please discuss before taking further action. In particular, investments in AIM shares can be illiquid and difficult to buy or sell.