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Income or Growth These four stocks fit the bill for the portfolio

I often get asked what is good for the long-term portfolio, and the answer usually revolves around the clients overall investment objectives and investment horizon. It comes down to either income or growth but if you are lucky you will find stocks that have both. In this report I have identified a small selection of stocks that fit the profile as well as a small treat that is primed for strong capital growth. These stocks should be the cornerstone of any portfolio.

Lloyds Banking Group

Ticker	LLOY
Objective	Capital growth and income
Dividend Yield	5.29%
Target Price	80p

Lloyds continues to make progress with a strong start to the Group's latest strategic plan and the planned integration of Zurich and MBNA and the launch of Lloyds Bank Corporate Markets all going to plan. One thing that Lloyds has long been known for is its ability to keep a tight rein on costs. And that's where a lot of the profit improvement is coming from. Lloyds has the lowest cost base of the big four banks.

It also has a very strong capital position. Its tier 1 capital ratio (a measure of a bank's financial strength) has climbed to 15.1 (14.5% post dividend) That's more than double the minimum allowable level. What's more, Lloyds has no net reliance on wholesale funding – meaning it's self-funded.

Today Lloyds is a safer, simpler and stronger bank.

It has stripped back its business model and proven banking doesn't have to be complex or esoteric to make a profit. That makes it stand-out from the other UK banks. It's narrow focus on the UK makes it easier to understand but leaves it vulnerable to shocks to the British economy, such as Brexit. This will also limit its future growth prospects.

We see Lloyds as a well-managed bank with leading market positions across many product lines. It's low PE and high dividend yield are clear signs of a stock that is under-rated, under-owned and under-valued.

Smurfitt Kappa

Ticker	SKG
Objective	Capital growth and income
Dividend Yield	3.85%
Target Price	2900p

Smurfit Kappa is one of the leading providers of paper-based packaging in the world, with operations in 21 European countries and 12 countries in the Americas. Producing corrugated packaging, containerboard and 'bag in box', and are the only Pan-American producer of containerboard and corrugated packaging.

Almost all the raw materials are sourced from their own paper mills. Their products are 100% renewable and produced sustainably, the business manufactures approximately 7 million tonnes per annum of paper and card. They also provide recycling solutions to ensure clients' corrugated packaging and paper is recycled responsibly, efficiently and reliably. To maintain sustainability, they have approximately 103,000 hectares of forest globally.

2018 was a strong year for the firm with a significant year on year improvement across several metrics including underlying revenue growth of 7% with EBITDA growth of 27% at a much-improved margin rate of 16.9%. Figures released this year have also highlighted a strong start to 2019.They also received an unsolicited bid approach from International paper (the world's largest paper and pulp business) in 2018 and although they knocked it back it highlights the potential for a bid approach to re-emerge.

BP

Ticker	BP
Objective	Income and growth
Dividend Yield	5.94%
Target Price	650p

BP Plc (BP) is one of the world's oil and gas "supermajors".

It's known as a "vertically integrated" company, meaning it's got its fingers in the whole supply chain from discovering oil, producing it, refining it, shipping it, trading it and selling it at the petrol pump.

BP's origins date back to 1908 when it was known as the Anglo-Persian Oil Company and was set up to exploit oil discoveries in Iran. In 1954, it became British Petroleum and in 2001, simply BP Plc.

Paid for patience

Although BP shareholders have had a bit of a white-knuckle ride in the last few years, the dividend has at least smoothed the journey. BP was quick to reinstate its dividend as soon as reasonably practical after Deepwater and has been able to maintain a good pay-out to its shareholders.

BP pays its dividends quarterly. They are declared in Dollars, but paid in Sterling. While the declared dividend has held steady at 10 cents a quarter since 2014, due to the weakness in Sterling (thanks Brexit!), the dividend has actually gone up. At current levels, the shares are yielding around 6%.

Road to recovery and recent figures

Quarterlies just posted highlighted Underlying replacement cost profit came in at $2.4bn. That's less than the $2.6bn achieved at the same point last year but this was attributed to the "weaker price and margin environment" seen at the beginning of 2019. A little disappointing but still a beat on some analysts forecasts.

Oil and gas production averaged 3.8m barrels a day of oil equivalent over Q1, 2% more than last year due to the integration of recent acquisitions from mining giant BHP Group and three major projects in Trinidad, Egypt and the Gulf of Mexico.

BP have also stated they expect second quarter figures to be little changed overall with a trade off between the ramp up of three new projects helping offset the impact of maintenance shutdowns.

BP are also confident it could hit a target of pumping 900,000 boe/d from new major projects by 2022.The oil major has brought 22 new upstream major projects into production since 2016 which are producing around 500,000-600,000 boe/d,

“The track looks pretty good in terms of the ramp-up to the full 900,000 boe/d,” Gilvery told analysts on a conference call “All the projects we need onstream are either FID’d or in operations now so that why we feel so confident about the 2021 targets.”

Dividend master

BP is really seen more as a dividend-generating machine by most shareholders and market participants, rather than a share primed for capital growth. If you are looking for the potential for larger capital gains in this sector then there is an absolute plethora of micro caps, these companies do of course go hand in hand with the high risk associated in exploration. BP should be a stalwart of any portfolio but especially one that is set up for income. For this reason investors will be more focused on any hikes to dividends and a 2.5% hike to the quarterly dividend to 10.25 cents per share will be one of the more important factors in the recent announcement. If this continues for the remaining quarters then will see BP continuing to supply a yield of 5.7% at current prices.

Sativa Investments

Ticker	SATI
Objective	Capital Growth
Dividend Yield	-
Target Price	25p

Sativa is giving UK investors a way to access the global cannabis markets, but over the medium to longer term, the plan is to take advantage of its first mover position in the UK.

Sativa Investments Plc is the UK’s first medicinal cannabis Investment Vehicle. Its shares were admitted to the NEX Exchange Growth Market in March 2018 under the ticker SATI.

The company aims to identify and invest in global opportunities related to medical cannabis – including production, pharmacology, testing and compliance, R&D commercialisation, sales and marketing.

Whilst Sativa is a relatively new business the Company’s Board and Medicinal Cannabis Advisory Board have a depth of experience. This includes names like pharmacologist Sir Alasdair Breckenridge. He alone has nearly sixty years medical experience as a pharmacologist. He also liaises with the Home Office and the Medicines and Healthcare products Regulatory Agency, which he has chaired, for the legalisation of medicinal cannabis in the UK.

To date Sativa Investments plc has made the following investments:-

- Veritas Pharma Inc. A Canada based and dual listed pharmaceutical company.
- Rapid Dose Therapeutics Inc. A CSE-listed Canada based Pharma company, which owns the QuickStrip™ technology.
- George Botanicals Ltd. A UK-based CBD products provider (Sativa has 100% ownership)
- PhytoVista Laboratories. A UK testing laboratory meeting the need for regulatory and batch testing of products such as CBD oil.
- A joint venture with Germany’s Lexamed GmbH,.

Sativa is also focussed on researching and developing medicinal cannabis products by funding university research grants of medicinal cannabis through its Sativa Foundation.

Sativa are now responding to the change in UK legislation and have recently stated they are going to focus its strategy on the British operations. Sativa already owns two UK-based businesses, a cannabidiol (CBD) manufacturer, wholesaler and retailer George Botanicals and testing facility

PhytoVista Laboratories. The group have also recently announced that it plans to open its first Goodbody & Blunt retail wellness centre in early summer of 2019.

Overall, we see Sativa as an early-stage, but an exciting play in the rapidly growing medicinal cannabis market. Its partnerships and first mover position in the UK could enable it to leverage licencing opportunities both in the UK and Europe.

About Atlantic Capital Markets

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