

MAY 2020



ATLANTIC CAPITAL MARKETS



# UP FROM THE ASHES

Shares to buy for the recovery

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After such a poor start to 2020's trading the market is starting to show some normality and certain stocks are starting to recover. Overall, it has left a lot of shares heavily down over the last 6 months and offering investors a once a decade opportunity. Some will recover quicker than others and some may linger for a while as more clarity is sought on the outlook but overall, it is a prime opportunity to fish for some bargains to sit on for the recovery. In this report we highlight a few of the big fallers, why the falls, the catalysts for recovery and what the upside has on offer.

## Taylor Wimpey

### 6-month highs 236p

Taylor Wimpey (formerly Taylor Woodrow) came to be after the merger of Taylor Woodrow and George Wimpey in July 2007. Taylor Wimpey's UK operations are increasingly focused on the Taylor Wimpey brand with historic brands (Bryant Homes, George Wimpey, Laing Homes and G2) being phased out. Taylor Wimpey's corporate head office is located at Gate House in High Wycombe. There are 24 regional offices in the United Kingdom. Taylor Wimpey build houses all over the UK with sites throughout Scotland, Yorkshire and Humberside, East and West Midlands Wales and London.

Taylor Wimpey's share price took a beating in the stock market crash over the fears of construction sites coming to a halt. The firm is one of Britain's leading builders and have recently confirmed that it will commence a phased return to construction in May. They also reported recently that orders for new homes are rising, with prices comparable to those prior to the lockdown. The long-term outlook for the UK property market remains bullish, with low interest rates and a housing shortage adding to the appeal of Taylor Wimpey at current levels.





## Smith & Nephew

### 6-month highs 2000p

A British multinational medical equipment manufacturing company headquartered in Watford. It is an international producer of advanced wound management products, arthroscopy products, trauma and clinical therapy products, and orthopaedic reconstruction products. Its products are sold in over 120 countries. The company was founded in 1856 by Thomas James Smith of Kingston upon Hull who went into business as a dispensing chemist. A few months before his death in 1896, Smith was joined by his nephew, Horatio Nelson Smith, and the business became known as T. J. Smith and Nephew.

The shares still trade at a considerable discount to the 6-month highs, it has bounced from the lows and has entered a consolidation phase before showing signs of moving higher. At the end of March, the company revealed many operations continue despite the directors making the usual precautions and adaptations for the current economic situation.

In a recent statement the firm have said that sales in April nearly halved as more patients delayed elective surgeries, such as hip replacements, due to coronavirus-driven lockdowns. The company had withdrawn its annual forecast in March due to uncertainty for its products that include orthopaedic implants and prosthetics. However, they also stated that elective procedures had resumed in China, a key growth market, which helped counter a fall in demand.

"The recovery in China is encouraging, as is the restart of elective surgeries in many other countries, and especially within the US," said Roland Diggelmann, chief executive officer of Smith&Nephew.





## BP Plc

### 6-month highs 503p

BP is a British multinational oil and gas company headquartered in London. It is one of the world's oil and gas supermajors. The firm traces its origins back to 1908 with the founding of the Anglo-Persian Oil Company, established as a subsidiary of Burmah Oil Company to take advantage of oil discoveries in Iran. In 1954 it Adopted the name British Petroleum. BP is a "vertically integrated" company, meaning it's involved in the whole supply chain – from discovering oil, producing it, refining it, shipping it, trading it and selling it at the petrol pump. BP has operations in nearly 80 countries worldwide, the company has around 18,700 service stations worldwide. Its largest division is BP America. In Russia, BP also own a stake in Rosneft, the world's largest publicly traded oil and gas company by hydrocarbon reserves and production.

The share price has been hammered over the last six months as a near lethal mix of the Covid-19 pandemic, supply disruption and a falling oil price have taken their toll. In response to this BP have issued a revised guidance and up to now have maintained dividends which makes BP a more attractive buy at current levels than their peers.

The oil governing body (OPEC) are looking at supply cuts which should boost the oil price. With many countries looking to ease lock down measures, demand should boost revenue for BP at both a retail and wholesale level.







# Whitbread

**6-month highs 5118p**

Whitbread plc is a British multinational hotel and restaurant company headquartered in Houghton Regis, Bedfordshire, United Kingdom. The business was founded as a brewery in 1742 and had become the largest brewery in the world by the 1780's. Its largest division is currently Premier Inn, which is the largest hotel brand in the UK with over 785 hotels and 72,000 rooms. Whitbread's brands include the restaurant chains Beefeater, Brewers Fayre and Table Table. The business was formed in 1742 when Samuel Whitbread formed a partnership with Godfrey and Thomas Shewell and acquired a small brewery at the junction of Old Street and Upper Whitecross Street and another brewhouse for pale and amber beers in Brick Lane, Spitalfields. Godfrey Shewell withdrew from the partnership as Thomas Shewell and Samuel Whitbread bought the large site of the derelict King's Head brewery in Chiswell Street in 1750. The new brewery was to produce porter and was renamed the Hind Brewery after the Whitbread family coat of arms.

Possibly one of the biggest casualties in the selloff and still lingering at lows due to the lack of clarity as to when they can reopen and how the exit from Lockdown will play out. Whitbread share price offers buyers a great entry level. Recent government announcements still point towards it being sometime until the sector can return to full operational status so I would expect to see a lot of choppy moves in the near term but as we try to come out of lockdown and rules are eased it will slowly bring life back to the business.





# Lloyds Banking Group

6-month highs 68p

Lloyds was initially founded in 1695 by the Parliament of Scotland, which makes it the second oldest bank in the United Kingdom. The Group's headquarters is located at 25 Gresham Street in the City of London. Lloyds Banking Group's activities are organised into: Retail Banking (including Mortgages and Sole Traders); Commercial; Life, Pensions & Insurance; and Wealth & International. Lloyds' has extensive overseas operations in the US, Europe, the Middle East and Asia. Following the takeover, the Group stopped using the name HBOS publicly. The Halifax brand, products and pricing were discontinued in Scotland until it was re-established in 2013. The Halifax and Lloyds Bank brands are used in England and Wales and the Bank of Scotland and Halifax brand is used in Scotland, each offering different products and pricing.

Lloyds has always been a bell weather for the British economy as it is the largest UK based bank. As we slowly emerge from lockdown and the economy starts to come back to life it suggests that now could be a great time to start looking at the shares. While the bank's dividend has been cut, the demand for borrowing has increased. Recent announcements from the Bank of England and their decision to cut interest rates to a record low has reduced Lloyds' cost of capital. That means it costs the bank less to borrow the money it then lends out to customers.

The bank's earnings might take a hit this year if it has to grant a lot of debt payment holidays to customers, but business should return to normal in 2021. When business does return to normal there is no reason to think Lloyds share price will start to recover offering the potential for 100% gains for buyers willing to move at current levels and patience to wait for the recovery.





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