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Business

Manchester & London is up 41pc since our March tip, but there's more mileage yet

A rapid rise in share price is counteracted by higher earnings forecasts – so it's not that much more expensive

Questor
Trust Bargains
Richard Evans

Manchester & London
Hold
Rapid earnings growth and a still attractive 9pc discount

ONE of this column's most successful recommendations has been the Manchester & London investment trust. We tipped it as a buy in March at 305.75p and the shares have risen by 40.6pc to 430p. The question now is: has the share price got ahead of itself?

The trust's gain in value stems from two sources, namely good performance from its holdings and an appreciable narrowing of the discount.

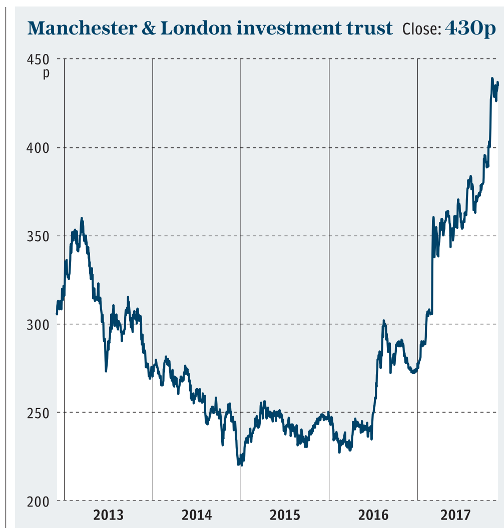
At the time of our tip the discount stood at 21pc but it has now roughly halved to 9.1pc. This narrowing on its own would have taken the share price to about 353p so the rest of the share price gain is down to actual gains produced by the portfolio.

"The rise in the trust's net asset value has been pretty impressive," said Simon Elliot, an analyst at Winterflood, the stockbroker. The portfolio has heavy exposure to "disruptive" technology stocks such as Amazon, Alphabet (Google's parent company), Apple and Facebook.

Shares in all of these companies have experienced strong gains since our tip and there have been concerns that the technology sector as a whole has become seriously overheated.

But Mark Sheppard, who runs the trust and has about £50m of his own money in it, is not worried. He pointed out that the valuations of his holdings had generally risen less than their share prices over the past nine months, which means that earnings had also been increasing.

Sheppard, like many professional investors, assesses valuations by comparing the "Ebitda" measure of earnings (before interest, tax, depreciation and amortisation) with "enterprise value" (stock market value plus any debt). Dividing the enterprise value by the Ebitda gives a valuation ratio on the lines of the well-known price-to-earnings (p/e) figure.



Key numbers

- **Market value: £96.4m**
- **Year of listing: 1997**
- **Discount: 9.1pc**
- **Ave discount over past year: 15pc**
- **Yield: 0.8pc**
- **Most recent year's dividend: 9p (inc specials)**
- **Gearing: nil**
- **Annual charge: 0.96pc**

The "p/e" ratio of the Manchester & London portfolio calculated on this different basis has risen from 13.7 to 14.7 over the past nine months. However, the forecast rate of earnings growth for the holdings over the next five years has risen from 11.4pc a year to 14.7pc over the same period.

"The underlying holdings have got only slightly more expensive for forecast growth rates that have actually become faster," Sheppard said.

While the discount has narrowed considerably since our tip it is still close to double-digit territory. At a time when discounts generally are close to historic lows, there is scope for it to narrow further.

This is not a trust for anyone worried about toppy markets but would suit those who believe in the long-term ability of the likes of Amazon to change the world.

Questor says: hold
Ticker: MNL
Share price at close: 430p

Update: Ediston Property Investment

In May we tipped this real estate investment trust (Reit) because its approach of "active management" of its properties, as opposed to passive ownership, seemed to offer the best hope for returns of more than just the yield, given the consensus view that strong capital gains across the board were becoming a thing of the past.

We stand by the tip, especially in light of the recently announced 4.5pc rise in the dividend.

The company has also published plans to buy a portfolio of warehouses and to raise money from shareholders to fund the purchase.

The deadline for subscribing to the offer will be 11am on Dec 6. Contact your broker or investment platform if you want to take part. The price will be 111.75p per share. This is almost exactly the current market price, but buying via the share offer removes complications regarding the share price spread and ensures that large buyers can have their order fulfilled without problems.

Investment trust news

A new infrastructure investment trust, **Tri-Pillar Infrastructure**, is to list on Dec 8. Investors who want to participate in the flotation must submit application forms by Dec 5. Andrew Charlesworth, the lead manager, co-led the listing of John Laing Infrastructure in 2010. The yield target is 4.5pc, based on the issue price.

The **Chelverton Small Companies Dividend Trust** intends to more than double in size by issuing up to £75m worth of new ordinary shares and £30m of new zero-dividend preference shares. The deadline for applications for ordinary shares is Dec 21.