

## Unloved and undervalued



Colin Gellatly  
Deputy Chief  
Investment Officer

Across various measures of value, the UK stock market looks inexpensive. With the stage set for an economic recovery, there are lots of attractive investment opportunities for active stock pickers.

**Investment update** — December 2020

### Looking for value

The UK stock market looks inexpensive across various measures of value relative to its own history as well as when we compare it with other regions today. There are a number of reasons, which include its composition. With a bias towards cyclical sectors, including financials, energy, leisure and hospitality, and a relatively small technology sector, it's a region that's been unloved by investors for some time.

Short-term risks remain, including uncertainty about Brexit, which continues to dampen the confidence of both consumers and businesses. Meanwhile, despite the good news about the success of several Covid-19 vaccine trials, we must get through the winter spread of the virus first, with new restrictions on travelling and meeting likely to slow economic activity.

### The potential to rebound

However, we believe there's a strong case for investing in UK equities over the longer term. As a service-oriented economy, the country has been one of the hardest hit across the developed world this year. The sectors that have suffered the most during the lockdown should be the ones that rebound strongly as a mass vaccination programme means the government can relax the measures that have slowed the spread of the virus.

The UK stock market is about more than just the domestic economy and many companies make a large proportion of their profits overseas. Notably, it has recently outperformed other regions, including the US, which is an encouraging sign. While broad market valuations may be depressed, it remains important to be selective in order to find the most attractive opportunities.

The best investments are not always the most obvious ones in terms of region, sector and individual stock selection. That's why our discretionary portfolios comprise funds that are actively managed. These teams of professional investors have the skills and resources to identify companies with the potential to deliver attractive investment returns through all market conditions.

Following are three UK-based companies they've highlighted can outperform as the economy recovers from the health crisis.

**Omnis UK All Companies**  
Franklin Templeton — Colin Morton

#### Greggs



Nationwide baker Greggs has faced strong headwinds from the lockdown measures. However, around half of its stores are accessible by car, which has helped. In addition, Greggs has accelerated plans to increase sales online through channels such as Just Eat as well as click and collect, which have been successful.

Despite the short-term pandemic drag, the manager remains encouraged by the longer-term prospects. Many companies in the food-to-go market suffered a decline in footfall due to the pandemic this year, while having a less robust balance sheet than Greggs in our view. As demand returns, it expects that a thinned out competitive backdrop will allow Greggs to ramp up expansion plans that are currently on hold. The management team has an excellent track record of positioning the business for growth and it thinks the current valuation offers a good balance between the risks and potential rewards.

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**Omnis Income & Growth**

Jupiter — Ben Whitmore

**BT**



The fund's long-term holding in BT is very lowly valued (with a trailing price–earnings ratio of 4.1 times (and forward p/e ratio of 5 times), which means the shares are trading on what the manager considers to be 'giveaway' prices. The company is responsible for rolling out Openreach, the country's superfast broadband network. The market is concerned about the speed of the rollout and the returns that the company will be able to generate, as it's a regulated market.

However, when comparing BT with other regulated companies, it's significantly undervalued. The company is integral to the UK's infrastructure, witnessed more this year than ever before as so many people had to work from home. As such, the manager believes BT could trade on a significantly higher valuation.

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**Omnis UK Smaller Companies**

Franklin Templeton — Richard Bullas

**Sumo Digital**



The fund manager has backed this computer games developer since it listed on the stock market in December 2017. Sumo Digital has advanced up the value chain from being a traditional work-for-hire provider, to now being able to offer full turnkey game development services, which has led to a deepening and expansion of its publisher and developer relationships.

The company's recent US acquisition is expected to enhance the growth opportunity of the group by providing a US platform to replicate the success it has achieved in the UK. The video games industry is benefiting from strong structural growth trends driven by demand for high-quality content and Sumo is building a strong track record of capitalising on these trends.

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