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Ten shares to follow in a year that begins with a cliffhanger

Martin Waller
Tempus



Forecasting is a mug's game, sometimes. As the market closed yesterday, there was no resolution of the stand-off on the US fiscal cliff. The world's biggest economy will either have kicked the can further down the road or be about to go into recession again.

The assumption was that there would be a grubby compromise. The FTSE 100 Index is about 30 points higher since the start of this month. It would not be, were the markets expecting some financial apocalypse.

All the other uncertainties remain hanging over the market — the eurozone, the Chinese economy and so on. That said, the markets did better in 2012 than I thought they might this time last year.

I am not making any strong forecast on where shares are going in 2013. Many manufacturers, particularly those in specialist engineering or exposed to the oil and gas industry, are in rude financial shape, with strong balance sheets, but much of this would seem to be in their share prices already.

So in my picks for 2013, I am again avoiding stocks with exposure to consumer spending, such as retailers and pubs, and the banks, which I suspect have recovered as far as they can for now. Instead, I have gone for strong performers with a good dividend yield, which I suspect will

play well if interest rates remain low; a couple of corporates that I think the market is undervaluing; and a few outliers. As ever, don't bet the farm.

I like **Interserve**, above others in support services, because of the management and its strong order

book. Interserve recently did a deal that disposed of its Private Finance Initiative assets and freed up capital for further expansion. The shares have come a fair way since the spring but still sell on a little more than eight times earnings, with a decent yield.

Fortune Oil is an oddity, my only penny share. After a complex deal earlier this month that transferred its Chinese natural resources interests to a Hong Kong-listed company, Fortune will end up with £100 million in cash, a stake in that company worth something like three times that, and other assets in China. But the market capitalisation is little more than £200 million.

Thomas Cook is a straight punt. The company has been through a near-death experience and now has a newish chief executive, Harriet Green, who has set about a recovery programme. I believe Thomas Cook will survive, and if so, there is only one way for the shares to go.

GKN is one of our strongest engineers. Its purchase of Volvo Aero

last year, but the shares underperformed because of the complicated merger with Xstrata. I am going for these shares again, because I believe that once the merger is completed in the spring, they should be due a bounce.

The third natural resources stock is **BP**. I toyed with this last year but decided it was too early to call a recovery. I was right. But I suspect the unwinding of BP's troubled Russian joint venture, and the company's progressive dividend policy, with the payout up 12.5 per cent in the third quarter, will do the trick in 2013.

Lamprell is a real outlier. The oil-rig maker issued a handful of profit warnings last year, and the shares have been bumping along the bottom since the spring. Like Thomas Cook, on the assumption there are no more horrors out there, the shares seem to have only one way to go. Either that or someone will take Lamprell over.

The healthcare company **BTG** had a disappointment last year when a drug to treat sepsis, a life-threatening condition, failed in clinical trials. But the company has several other promising compounds in the pipeline while the treatment for which it is best known, for snakebites, increasingly looks like a monopoly in what is, admittedly, a specialised area.

Pearson is a solid pick. I've chosen it for its strong global franchise in education, which provides about four fifths of profits. The group, which also owns Penguin books, recently made its first move into e-readers. The shares also have the support of a decent 4 per cent yield.

Finally, **Hutchison China MediTech** develops Chinese botanical products into drugs that can be sold in the West, and is a long-time favourite of this column. The company did an exciting deal with Nestlé last month to fund the development of its most promising compound, for ulcerative colitis and Crohn's disease — a market worth \$6 billion or more a year. But the shares have done little since February, and I

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The FTSE would not be higher if markets were expecting apocalypse

boosts its exposure to civil aviation, while it should do well from any recovery in the European automotive market. The shares have recovered from their fall on a weakish outlook statement in October but still sell on less than nine times forward earnings, which looks good value.

There are four natural resources stocks in my picks this year. This is because the sector is so huge, and also because miners in particular had a bad 2012. But my four, including Fortune Oil, are all quite different.

I picked **Glencore International**

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do not think the prospects are in the share price.

There you have it. One or two of these will probably startle with a profit warning, to go on past years' experience. One or two will spectacularly outperform. We shall see. Happy new year to all readers.

Gilts

UK government bonds held firm in light trading as investors awaited the outcome of talks in Washington to try to avert billions of dollars of tax rises and spending cuts that threaten the health of the world's biggest economy. The March gilt future settled five ticks lower at 118.92. The yield on ten-year gilts eased by less than one basis point to 1.82 per cent.

Bet of the day

Spread-bettors who had backed the Footsie to push past 6,000 points last year were out of time and out of pocket. With America teetering on the verge of its \$600 billion "fiscal cliff", markets struggled to make headway, though a compromise deal in the US was still widely expected. Interactive Investor offered 5,886 to 5,887 on the Footsie.

Tiddler to watch

Jubilant Energy improved by 3.2 per cent to 16½p after formally declaring that its Kathalchari gas discovery in northeastern India was commercial. The exploration company — which holds a 20 per cent interest in the block, with the rest held by India's biggest state-owned gas company — will submit a development plan to the Indian Government.

Ten Tips for 2013

Company	Sector	Share price at Dec 31, 2012
Interserve	Professional and Support Services	388¾p
Fortune Oil	Natural Resources	10½p
Thomas Cook	Leisure	48p
GKN	Engineering	228¾p
Glencore International	Natural Resources	351¼p
BP	Natural Resources	424¾p
Lamprell	Natural Resources	94p
BTG	Health	332p
Pearson	Media	£11.88
<u>Hutchison China</u> <u>MediTech</u>	Health	415p