

# Stock spotlight | Three interesting stories in 2021



There are always opportunities for active investors regardless of the economic environment. We look at three companies selected by our fund managers that have performed well so far in 2021.

It's always possible to find companies with investment potential, regardless of what's happening in financial markets and the global economy. The fund managers we work with try to identify companies to invest in that can deliver superior returns.

There are a number of reasons why a fund manager might invest in a specific company. Our managers look at companies from different angles, focusing on things like their financial health and market share, before deciding whether to invest.

We believe in the benefits of active management, and all our investment management partners invest in companies on an active basis. Their teams of professional investors have the skills and resources to identify companies with the potential to deliver higher returns than the broader market over the long term.

Here we examine three examples of companies our managers selected and invested in within the Omnis funds. One was viewed as a good takeover prospect, another operates in the booming renewable energy sector and the third is unloved by investors despite an interesting turnaround story.

## Investing in takeover potentials: Sumo Group – UK Smaller Companies Fund

Sheffield-headquartered Sumo Group, which has created games in the Hitman, Sonic and Little Big Planet franchises, is one of the UK's largest providers of creative and development services to the video games and entertainment industries.



The fund manager Franklin Templeton was attracted to Sumo because of its competitive position, publisher relationships and track record of delivering leading titles across a range of platforms. The management team has a strong reputation in the industry and the business has been well-placed to capitalise on market growth.

The company's business model, which provides outsourced game development capability to computer game IP owners such as Microsoft, Sony and Sega, is perceived as a lower-risk way of benefiting from positive trends in the computer games industry. The group's acquisition last year of US-based video game developer Pipeworks Studios has led to further growth.

With consolidation and takeover activity in the gaming industry rising in recent years, Franklin Templeton believed the prospect of a larger entity acquiring Sumo for its strength and depth of talent a possible outcome.

This year, Chinese technology giant Tencent agreed to acquire Sumo in a deal valuing the company at £919 million in July at 513p per share. The sale has realised a strong return for investors in the Omnis fund based on the average purchase price per share of 138p, highlighting the growing benefit of investing in the sector.

Through two other portfolio positions Franklin Templeton has maintained the weighting to the computer games development sector, following the takeover by Tencent. The manager believes that as the global gaming population grows and demand for content increases, the fund will continue to be well-positioned to benefit from the continued demand for computer game content.

## Investing in the growing 'green' trend: Sungrow Power Supply – Asia Pacific ex Japan Fund

With the global push towards low-carbon energy sources, China-based renewable energy company Sungrow Power Supply has seen its fortunes soar in recent years. The company, which produces solar inverters, wind energy converters, energy storage systems and motor controllers for electric vehicles, saw profits surge by 158% in the first quarter of 2021, year-on-year.



The manager, Veritas Asset Management, is encouraged by China's booming renewable sector, which makes it an attractive market for investors. Chinese authorities are investing heavily in green energy and the country is leading the way in solar power innovation.

Given the growing commitments to net zero, which includes China, and the likely increased regulation surrounding climate change, the global demand for renewable energy is on a long-term growth trajectory. Increased investments in solar power projects and rising demand for solar energy as a substitute for conventional energy sources should benefit from this trend. The demand for solar energy is a global phenomenon for which Sungrow is a beneficiary, with demand for its products not confined to China.

As alternative energy becomes cheaper, the manager expects demand for clean energy solutions to show steady growth. The company has a good track record of increasing the quality of its profits and maintaining its cost and price advantages, which has resulted in share price gains.

Sungrow is expected to have an earnings compound annual growth rate (CAGR) – the measure of an investment's annual growth rate over time – of 37% in 2021–23, one of the strongest and more sustainable in the sector.

### Investing in unloved companies: Nokia – Income and Growth Fund

Finnish telecommunications firm Nokia has benefited from a sharp turnaround in its business since the start of the year, following a round of changes in its company operations. After selling its mobile handset business to Microsoft, the firm switched its focus to the telecommunications network market, where it has become a global leader.



In many western countries Nokia enjoys a duopoly (when two suppliers dominate a market) with Ericsson after Chinese firm Huawei was banned for being a security risk. However, the share price has been weak following the botched integration of Franco-American group Alcatel–Lucent in 2016, which ultimately led to Nokia losing technology leadership in 5G.

Meanwhile, chipset and performance problems have led to sale price discounts and there have been additional costs to guarantee minimum service levels. As a result, its mobile network arm is not expected to generate any profits this year.

Recognising the problem, Nokia announced an aggressive restructuring plan, increasing investment on research and revamping its top-level management team.

More recently, the company has upgraded its profit forecasts for the year, driven by higher operating margins. Nokia's balance sheet is strong and the manager, Jupiter Asset Management, is positive about the company's prospects in the long term.

Nokia has also sealed a high-profile 5G contract in China after its rival Ericsson was shunned due to political tensions between Sweden and China, which could further boost earnings going forward.

Since the manager bought shares in early 2021 they have performed strongly and are up over 40% over the year.

### Find out more

All of our Omnis investment managers are looking to invest in companies that can generate attractive returns for you.

If you'd like to find out more about our approach to investing or have any other questions about your portfolio then please visit our [website](#) or contact your financial adviser.

[www.omnisinvestments.com](http://www.omnisinvestments.com)

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