

JUSTIN'S COMMENTARY

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



Getting real value out of the Royal Mail

Royal Mail (RM). So out come the pictures of pre Big Bang brokers with wide suits and dodgy hairstyles and we are immediately being brought back to the world of the old Thatcher privatisations. Certain stockbrokers will be licking their lips at such potential volumes of trades if the Royal Mail privatisation actually goes ahead, as they will benefit from an autumnal windfall of share sales as 21st century Sid cashes in his punt on the market.

Now I agree that RM should be brought back into private ownership, if only to get it away from the interfering politicians who have used and abused it over the years. It was almost twenty years ago that Heseltine tried and failed to get the beast freed and it was seen then as being a 'privatisation too far'. Of course, this was before email and the internet and so RM was suffering from aggressive and effective competition from the Dutch and even the Malaysian mail services, as junk mail was redirected through their now far more competitive companies. RM had no answer to this except to be seen as almost a dying business as volume was taken away and an unreformed cost base rotted the value from within.

Now we are in a different era where the letter post has declined even more but the true value lies within the parcel delivery area, as internet shopping has delivered an unexpected boom and boon. I find it sadly amusing on Saturday mornings to stand watching husbands queue up at the local sorting office to collect their electronically and instantaneously ordered goods, probably all taking far longer than if they just gone to John Lewis in the first place.

However, what this means is that RM these days probably has more attraction to Amazon rather than anyone else as they seem to increasingly dominate the online ordering of sundry goods.

When it comes to the float though - oh dear have we really learnt nothing. Are we really going to go through the expensive (especially when you look at all the marketing that will be accompanying it) process of a popular public share offering? We know from previous experience that 'popular share ownership' didn't work in creating a mass movement of public ownership. What it did create was a mass movement of share punting on a few stocks 'priced to go'.

I have mentioned this before, but here is the perfect opportunity to resolve everyone's issues with regards to handling state owned assets in a way that can be seen as being both cost effective and efficient, provides the government with its cash, frees the business to operate away from state control, and gives ownership in a fair and responsible manner to those who wish to participate.

With a value of something in the region of £2-3bn, here is the first valuable asset which could be transferred into the UK's own Sovereign Wealth Fund (SWF). I say the first as I have mentioned before a host of other smaller value assets sitting in the government's family silver caddy, which could then be also added to our SWF. This would therefore enable investors to invest into a portfolio of companies which the SWF would be able to manage effectively as an investment manager of a longer term private equity business.

It could buy and sell stakes as it thought fit and the underlying shareholders would benefit from the successful operation of this portfolio of companies over the years.

This would avoid the messy and fraught with danger route of trying to rush some of these asset sales in a manner determined by the government's short term need for cash rather than good evaluation of market timing for the benefit of the business.

At that point we could then add some or all of the other assets as the government needs to transfer them and achieve a more managed sale over time. These could include part of the holdings of RBS and Lloyds, as well as some of the more esoteric assets like the Met office, Urenco (the nuclear processor in which the government has a one third stake) and the Student Loan Book.

To offer the citizens of Britain a share or unit in a fund of national assets would be a far more attractive offer and one which would be seen to provide better longer term value for investors, rather than just a quick 'pump and dump' share sale.

However, why not then take this further? Why not endow this SWF with a small stream of value from our energy assets, whether from fracking or from our now mature oil and gas fields? With this income stream you could then give the SWF a mandate for investment in UK business at all levels. Have we not heard the bleatings for a bank for small business (if you support the notion that SMEs are at the core of UK business)? Then here is your funded vehicle to enable this to take place.

Do I dare take this even further down the plank before I fall off? Then why not have the SWF integrated with regional Peer to Peer lending structures? This would enable private investment to flow behind the SWF investor as the lead participant and give greater support to investment opportunities and proposals.

So let's have Royal Mail deliver something really valuable - not just letters and parcels, not just a share flotation, but a strategic investment structure for the UK and its citizens.

* * *

And finally... alternative airport housing seems to be becoming more popular – 'Woman mysteriously living in Cancun airport'. With adventures of the much sought after American, Mr Snowden at an airport in Moscow, it would seem that such a life in limbo land is not unknown elsewhere.

At a Mexican airport there is a strange lady - she's not a criminal and she has a passport. But authorities at Cancun's airport say a Mexican woman has been living inside the airport for more than a week after getting off a flight back from the U.S.

"She looks like a regular passenger at first glance, people don't look at her, but we have seen her every day".

Employees are becoming increasingly worried about the mental health of the woman, who has been seen eating, sleeping and even bathing at various locations throughout the airport.

According to federal police officers, she hasn't committed a crime by lingering in the airport terminal, so they are unable to force her to leave.

Well it has to be one of the safest places to live, and so long as you don't mind fast food and kipping on waiting room seats – life could be worse.

Have a good week.

Justin Urquhart Stewart
Director
Seven Investment Management
www.7im.co.uk