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Results analysis: BlackRock Income and Growth

Stock selection has driven BRIG's excess returns versus the FTSE All-Share...

Update
08 January 2025

- **BlackRock Income and Growth (BRIG) has reported strong results for the 12 months ending 31/10/2024, with NAV total returns of 18.1% and a share price total return of 13.2%, compared to the FTSE All-Share Index's 16.3% return.**
- **Outperformance stemmed mainly from strong stock selection in the financials sector, with notable contributors including 3i Group, Standard Chartered and NatWest.**
- **The board declared a final dividend of 4.90p per share, which when combined with an interim dividend of 2.70p per share, equates to a total dividend of 7.60p – a 2.7% increase from last year. On the share price at the time of writing, this represents a dividend yield of 3.9%, higher than the FTSE All-Share Index's yield of 3.6%.**
- **Revenue earnings also showed solid growth over the period, rising by 10.1% to 7.20p per share from 6.54p the previous year. This means that the dividend is 94% covered by earnings. Additionally, as of 31/10/2024, BRIG's revenue reserves stood at £2,063,000, equating to 10.48p per share (before the payment of final dividend of 4.90p).**
- **Over the period, BRIG's average discount was 12.2%, and ended the year slightly wider at 12.9%. The board bought back 910,874, or 4.7% of shares at an average discount of 13.7%. As of 06/01/2025, BRIG trades at a 12.4% discount.**
- **Net gearing for BRIG during the financial year stood at 3.1%. As of the report's publication date, £4m had been drawn from its £8m borrowing facility.**
- **Chairman Graeme Proudfoot commented, "Now that the UK has a more apparently stable political landscape than many of the developed economies, this could provide domestic companies with the confidence to invest for growth and even help attract foreign investment."**

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Kepler View

These are positive results from **BlackRock Income and Growth (BRIG)**. Despite a challenging economic backdrop and ongoing global economic pressures, BRIG delivered solid returns, outpacing its benchmark by 1.8 percentage points. Outperformance stemmed largely from effective stock selection from managers Adam Avigdori and David Goldman, particularly within the financial sector. Notably, NatWest shares nearly doubled over the year, supported by robust net interest margins, lower provisions, strong capital generation, and the leadership of its new CEO, which helped resolve some internal issues. The company's consistently growing cash flows have also enabled it to return significant value to shareholders through higher dividends and continued share buybacks from the government.

With the conclusion of the UK's election, one could argue that the UK's political landscape appears more stable than other parts of Europe. However, broader market volatility persists, and BRIG's managers cite that opportunities continue to emerge on home soil. This is something they have been taking advantage of recently, arguing that the UK equities remain

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undervalued relative to other developed markets, offering double-digit discounts across a range of valuation metrics.

Reflecting this, the managers have been active in initiating new investments. Notable additions to the portfolio include Weir Group and GSK, both selected for their attractive free cash flow generation, growth potential, and sector-specific tailwinds. For instance, the mining sector's capital expenditure outlook is supportive, particularly in Weir's key commodities, providing an opportunity for orders to improve from a low base. Meanwhile, GSK experienced a significant de-rating due to litigation concerns surrounding one of its products. Despite this, the managers believe the risk-reward balance is now more favourable, and that when combining the signs of improved research and development productivity, GSK has potential for higher earnings and valuation multiples.

On the income front, BRIG has also impressed reporting strong growth in both earnings and the total dividend for 2024. Whilst we acknowledge its yield may not be the highest in the sector, the managers' total return ethos—prioritising consistent dividends alongside capital growth—positions BRIG as an attractive option for long-term investors. Delivering this growth, despite persistent volatility, is an impressive feat in our view, helping support the managers' rationale for focussing on cash-generative businesses with durable competitive advantages.

These companies should not only provide stability during turbulent markets but also offer the potential for long-term returns through dividend growth and capital appreciation. The trust's approach to identifying turnaround opportunities and uncovering mid-cap gems further enhances its appeal. Overall, we think that BRIG stands out as a compelling choice for investors seeking balanced exposure to the UK market, particularly at a time when valuations remain discounted compared to other developed markets. BRIG's strategy—blending value, growth, and a strong emphasis on quality and dividend growth—positions it well in the current environment, especially as pure-play value and growth strategies may no longer drive market returns in the same vein as they've done historically.

With BRIG's discount currently wider than its five-year average, we think now may be an opportune moment for investors to access a diversified portfolio poised to capitalise on undervalued UK opportunities whilst positioning for recovery and growth.

Click here to read the latest FY report on RNS

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Watch on youtube **Trust In Focus: BlackRock Income & Growth**

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