

# Stanley Gibbons

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## Stanley Gibbons looks to put its stamp on the world

For stamps and autograph expert Stanley Gibbons (LON:SGI), 2011 is shaping up to be the year it truly begins to capitalise on its global brand thanks to a much more powerful online presence, growing interest in its offerings, most notably in China, and renewed focus on its core business, high quality collectibles.

Certainly there is considerable scope for expansion for the company worldwide: Despite its leading brand status, the company still has only 0.4% of a global market worth \$10 billion per annum, according the international organisation for postal sector players, the Universal Postal Union. The body also estimates there are an estimated 60 million stamp collectors worldwide, of which 20 million are in China.

The long term, sustained growth in philatelic investment, furthermore, suggests stamps will remain an attractive alternative asset class going forward, further supporting the company's prospects.

While Stanley has been mulling and planning its online strategy for several years, it is only now that it is coming to full fruition. There are good reasons for the slow pace, with chief executive Michael Hall pointing to too much emphasis on the company's investment arm as a significant drag: "We focussed too much on short term opportunities to grow our investment and, perhaps, lost sight a little of our core objectives, core markets, core strengths."

But there are other very good reasons for the delay in getting the online strategy up to speed. Not least among them is the sheer volume of work involved in creating databases for over 30 stamp catalogues, and comprising 1000s of pages has been enormously time consuming. Hall cites as an example Stanley's "Stamps of The World" catalogue, which stretches over 6,000 pages and features over a million stamps.

The time and effort should all be worthwhile though over the long term. The company's retail website, launched last month should, for instance, enable the company to significantly boost earnings from its substantial holdings of lower value stamps. Previously those stamps, totalling over 400,000, were only available to purchase through visiting its retail premises on the Strand in London.

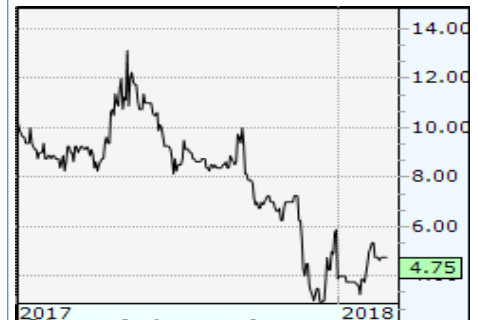
It is way too early to assess fully the performance of the retail site but Hall assures that its functionality is proving to be fine; with user feedback so far indicating just small tweaks are needed.

The retail site will be followed up, in the second half, with the launch of a trading platform. Similar in concept to trading on sites like eBay, it will allow stamp dealers and individuals to trade or auction their stock on a Stanley Gibbons platform.

**Price:** 4.75p

**Market Cap:** £8.5M

### 1 Year Share Price Graph



### Share Information

**Code:** SGI

**Listing:** AIM

<b>52 week</b>	<b>High</b>	<b>Low</b>
	14.5p	2.75p

**Sector:** General Retailers

**Website:** [www.stanleygibbons.com](http://www.stanleygibbons.com)

### Company Synopsis:

*Stanley Gibbons has been serving collectors since 1856, just 16 years after the first stamp - the Penny Black - was issued. &nbsp; We are the undisputed market leader in the field of rare stamps with "an unblemished reputation for expertise and honest dealing" (The Times). We have held the Royal Warrant for services to philately since 1914, a true mark of quality.*

[action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

The trading platform should generate new income streams for Stanley, including commission income and product authentication fees. There will also be a subscription stream thanks to its "innovative" online stamp collection tool and the site will boast access to online 'real time' pricing data for stamps too.

While the authentication service is not an obligation, sellers risk being kicked off on poor ratings – just as on Amazon and eBay.

Of its competitors in the online trading space eBay and Delcampe Auctions stand out but Stanley's heavyweight brand status should help it, over time, become the default focus for online stamp trading worldwide, especially at the higher end of the market. As Hall stresses, the company only trades in catalogue quality product: "With us, you know you are going to get top quality."

Turning to market penetration, China, home already to a third of philatelic collectors worldwide, and interest there continuing to grow fast, clearly represents a big opportunity for Stanley.

Already, with very minimal marketing to date, Stanley has managed to notch up sales last year £900,000. But the company is trading carefully: "What we are doing at the moment with China is building knowledge and presence. Hong Kong is particularly important in this respect – more dealers in China buy in Hong Kong than on the mainland."

The Chinese are particularly keen on British stamps – items like the penny black and tuppenny blue, for instance are a big hit.

A good illustration of the fantastic growth in the China stamp market is the performance "1980 Year of the Monkey 8f", the most famous stamp from China. It is, says Hall, the Penny Black of China - everyone there knows the stamp, reveres it and wants to own one.

In November 2006, Monkey 8fs were selling for £275 each on average. Today, they can sell at auction for £1,300, an increase of 373%.

Not surprising then that Stanley is also buying rare Chinese stamps to sell on. Hall explains that with stamp collecting having been illegal under former Chinese leader Mao Zedong, since his death in 1976 there has been an explosion in collecting. "A lot of Chinese stamps went overseas during the period when collecting was illegal but there is great interest there in repatriation."

Hall believes the company has much to offer collectors and traders of Chinese stamps, both inside and outside the country as many westerners are also buying Chinese stamps as a means of diversifying and buying into China.

He adds: "Our perception at the moment is that the Chinese themselves do not differentiate on quality whereas we only buy top quality. Indeed we are buying top quality at the same price as the Chinese are paying for poor quality."

There are growing concerns that the Chinese stamp market is now a bubble but Hall disagrees. "I think the term "bubble" is widely misused by financial commentators when referring to anything that represents a high growth market.

There is validity in the concept though, that things can't go up at such high rates forever...

"My view is that, sure, the Chinese stamp market will become a bubble eventually but at the moment it is just a fast growing market supported by huge and rising demand against severe supply restrictions." And Stanley is keen to ride it while the going is good.

The appetite of the Chinese for stamps is impressive, with Hall pointing out he has personally been to auctions in Hong Kong, for instance, where more than a dozen people will still be bidding for product over £100,000. By comparison, in the UK, he has never come across more than two or three bidders when prices rise above £100,000.

While the online ventures and growing demand overall augur well for the stamp side of its business, the company is also keen to move into other collectibles, niches that have similar characteristics to the world of stamps.

"We are definitely planning to diversify more into the collectibles universe in general. They are and will be extremely carefully chosen, however, not just in terms of product but the kind of partnerships we can forge with companies operating in the areas of interest to us. Quality in all respects is key."

In recent months the company has added rare coins and war medals to its range of currently core stamps and autograph offerings. Other collectibles of growing interest to the group include historical documents and antique watches.

"We are very much focused on the long-term and not interested in chasing short term targets, that has to be the foundation for Stanley. But yes, it would be fair to say we feel very much that we are in the process of going through a step change in our development'.

Hall's confidence about the company's strategy and prospects is certainly backed up by recent trading. An update in April revealed it had made a strong start to its new year, with first quarter underlying revenues ahead 24%.

With the company having begun the year with high level of product, analysts are anticipating a healthy increase in sales over the current year.

House broker Peel Hunt is upbeat on Stanley Gibbons highlighting in recent research significant growth opportunities for the company through the internet sites, growth in emerging markets and in other collectibles.

It believes growing global interest should ensure that stamps continue to be an attractive alternative asset class, with "the strength of the brand providing a key competitive advantage".

The broker estimates the asset value for Stanley Gibbons at £45.5m or 181p per share, including its stamps and memorabilia at market value rather than book value, underlining its confidence in the stock and prospects for the company.

Peel Hunt rates the stock a 'buy' with a price target of 215p.

Stanley Gibbons shares opened this morning on 184p.

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Contact us +44 (0)207 989 0813 [action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

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