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British American Tobacco PLC

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FTSE 100: The good, the BATS and the Ocado in 2018

The FTSE 100 index lost almost a thousand points (12.7%) in 2018 so there was plenty of competition for the blue-chip stinker of the year.

At the time of writing (21 December), the unwanted accolade was set to go to fags maker British American Tobacco PLC (LON:BATS), which more or less halved in price in 2018, although legacy software group Micro Focus International PLC (LON:MCRO) could yet steal the wooden spoon with a late profit warning or something.

BATS shares have been under pressure since it became clear that vaping was becoming, as the kids like to say, "a thing".

The maker of Lucky Strike and Dunhill cigarettes has a foothold in the e-cigarettes market but it is nowhere near as dominant there as it is in the tobacco-based products sector.

The company expects to earn around £900mln this year from e-cigarettes and tobacco-heating devices but even that forecast was down from an initial target of £1bn, which provided another stick with which the stock's bears could beat it.

In November, the shares took another shoeing as it was reported that the US Food and Drug Administration (FDA) was considering banning menthol cigarettes, seen as a "gateway" product that can get young smokers hooked on nicotine.

BATS owns Newport, the largest menthol cigarette maker in North America, which contributes as much as 25% of the group's annual profit.

Price: 3380.5

Market Cap: £77.99 billion

1 Year Share Price Graph

Share Information

Code:		BATS
Listing:		LSE
52 week	**High**	**Low**
	3507	**34.85**
Sector:		**Fashion & brands**
Website:		**www.bat.com**

Company Synopsis:
British American Tobacco is the world's second largest quoted tobacco group by global market share, with brands sold in more than 180 markets.

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The curse of Hewlett Packard
Micro Focus, the legacy software group, saw its shares lose 46% of their value in 2018 as it ran into problems integrating the HPE Software business it bought from Hewlett Packard.

In July, the blue-chip software firm's boss, Kevin Loosemore, revealed it was running about "one year behind" plan on the integration of the new business and reiterated that current year revenues will be substantially lower than anticipated at the time of its transformational takeover of HPE Software.

Four months earlier, the company had issued a profit warning as the "transformational takeover" was not providing the sort of transformation shareholders had anticipated. Chief executive duly Chris Hsu fell on his sword.

No escaping sector weakness
Sometimes you are out of fashion and there is little you can do about it.

Silver miner Fresnillo PLC (LON:FRES), down 41% on the year, was laid low by soft precious metal prices and some lower-than-expected ore grades in some of its silver mines, while Taylor Wimpey PLC (LON:TW.), down 34%, was the hardest hit in a house-building sector widely regarded as having moved past the top of the cycle.

Surprisingly, given the zombie state of the British high street, there was only one retailer in the top 10 fallers and in the case of Kingfisher PLC (LON:KGF), down 38%, the fault was largely with the French high street rather than the British one.

READ B&Q owner Kingfisher dragged down by French business once again in first half
The rise of online shopping has been a boon to the packaging sector and this has encouraged packaging companies to invest in new capacity, giving rise to concerns that the industry may suffer from over-capacity in the next decade.

As a result, DS Smith PLC (LON:SMDS) got it in the neck this year, shedding 38%, although sector peer Mondi only lost 16% and trades on a higher price/earnings ratio, signifying that the market was punishing DS Smith for its £1bn cash call to partly fund the acquisition of Spanish rival, Europac.

Online shopping should also have been a boon for Royal Mail PLC (LON:RMG) but parcel delivery is one area where it faces tough competition. Meanwhile, it is still lumbered with the need to maintain the uniform pricing on its letters delivery service and with its pension deficit.

Throw in a disgruntled workforce that seems not to have warmly welcomed its union leaders' pension and productivity deal with Royal Mail's handsomely remunerated management and you have a stock - down 38% - that is becoming to FTSE 100 membership what Norwich City football club is to membership of the Premiership.

Always look on the bright side of life
Even in a miserable year such as this one, there are always success stories and this year the big one was Ocado Group PLC (LON:OCDO), once commonly regarded as an online grocer that would inevitably get crushed by the supermarkets but now a company valued for its cutting-edge technology.

The shares were up 92% on the year as the sceptics - I was one of them - were made to eat humble pie (delivered in a 30-minute time slot in mid-afternoon) after the company bagged a deal with US retail giant Kroger this year.

When I say retail giant, I am not kidding; the US supermarket chain generated US$122bn in revenues last year, which makes it potentially a much bigger partnership for Ocado than the one it has with Morrisons or its long-held arrangement with Waitrose.

At one point in 2016, more one than one-in-five of the company's shares had been sold short - the practice of borrowing shares and selling them in the hope of buying them back cheaper later on. That figure has dropped to less than 3% although doubts still remain whether the company will justify its current £4bn valuation.

Steelmaker Evraz PLC (LON:EVR) trailed in a distant second in the list of Footsie risers, with a 42% rise, its fortunes, as ever, linked to the growth of the Chinese economy.

Recovery stock Pearson PLC (LON:PSON) was the third-best performer, with the publishing group rising 26%, while it was a good year for risk-averse investors to take refuge in those defensive standbys, pharmaceuticals stocks.

Shire PLC (LON:SHP), AstraZeneca PLC (LON:AZN) and GlaxoSmithKline PLC (LON:PLC) all gained around 14/15% on the year.

Another defensive favourite, J. Sainsbury PLC (LON:SBRY), just crept into the top ten with an 11.5% rise.

Rank

Company

% change

Company

% change

1

Ocado

+92%

British American Tobacco

-50%

2

Evraz

+42%

Micro Focus International

-46%

3

Pearson

+26%

Fresnillo

-42%

4

Shire

+15%

Standard Life Aberdeen

-42%

5

AstraZeneca

+15%

Royal Mail

-38%

6

GlaxoSmithKline

+14%

Kingfisher

-37%

7

Bunzl

+14%

DS Smith

-37%

8

Experian

+13%

WPP Group

-35%

9

Anglo American

+13%

Taylor Wimpey

-34%

10

J. Sainsbury

+12%

Vodafone

-33%

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