RNS Number : 9464L
Schroder Income Growth Fund PLC
12 November 2024

Schroder Income Growth (SCF)

12/11/2024

Results analysis from Kepler Trust Intelligence

Schroder Income Growth (SCF) has released its financial results for the year ending 31/08/2024, reporting NAV total returns of 19.0% and a share price total return of 17.7%, outperforming the FTSE All-Share Index's 17.0% return. Outperformance stemmed from several factors, including the trust's modest gearing, which averaged 13.5% over the period, enhancing returns by 2.6%. Manager Sue Noffke's strong stock selection within the financial and consumer staples sectors further boosted performance, as well as the portfolio's exposure to small- and mid-cap stocks, which outperformed their larger counterparts.

SCF is celebrating its 29th consecutive year of dividend growth, raising the dividend per share to 14.2p, a 2.9% increase compared to 2023. During the same period, earnings per share fell by 11.5%, meaning the total dividend was 82% covered by earnings. After the payment of the fourth and final dividend, the trust's revenue reserve sat at £5.7m, representing roughly seven months of the annual dividend. SCF's discount averaged 9.6% during the financial year, although it currently trades at approximately 11.4%. During its financial year, the board repurchased 38,000 shares - the first time since 2008 - and have since bought back an additional 8,000 shares, aiming to enhance the asset value per share.

Kepler View

We think the recent results from Schroder Income Growth (SCF) are strong, showcasing solid relative performance amid a challenging landscape marked by geopolitical tensions, polarised political climates, uncertainties around the speed of interest rate cuts, and sluggish global growth. We think this success is largely to lead manager Sue Noffke's disciplined approach.

Whilst the UK market has been perceived as a home for out-of-favour, downtrodden sectors that have struggled over the last decade, Sue views the sector's current undervaluation as an opportunity rather than a limitation, recognising the potential for long-term recovery and value creation within this overlooked market. Whilst some companies' low valuations are justified, she believes many are not necessarily undervalued due to weak fundamentals; instead, many have withstood prolonged macroeconomic pressures. As such, she has identified several companies trading at discounts, that also exhibit strong fundamentals, representing re-rating opportunities as the market corrects its mispricing over time.

Earnings from the mining sector fell by two-thirds, impacting the portfolio's income. As such, Sue increased the allocation to financials, including initiating a new position in Standard Chartered, which made up for some, but not all, of the shortfall from the mining sector. Additionally, 29 companies in the portfolio conducted share buybacks, favouring them over dividends. Whilst this wouldn't be good every year, Sue views these buybacks positively as they signal acknowledgment of the favourable valuations in the UK market. All else being equal, she highlights that buybacks can enhance future earnings and dividends per share, supporting shareholder returns over time.

Given present valuations, Sue and her team are optimistic about the opportunity set, something they believe is also supported by recent bid activity which has reached its highest level since 2018, indicating increased interest and investment, and aligns well with those seeking exposure to undervalued UK assets. Additionally, greater exposure to small- and mid-cap stocks has allowed SCF to benefit from recent upswings in these areas, which, whilst potentially increasing short-term volatility, has supported SCF's objectives over time and sets it apart from many equity income peers, offering differentiated income and return opportunities.

CLICK HERE TO READ THE FULL REPORT

Visit Kepler Trust Intelligence for more high quality independent investment trust research.

Important information

for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

END

NRABXBDBRUBDGSD