

# Middlefield Canadian Income (MCT.L)

Buy

## Sector exposure a key differentiating feature

**Investec view:** In our April 2022 note on Middlefield, [Well-positioned as headwinds become tailwinds](#), we highlighted how Canada had experienced a near lost decade, materially lagging the US, with a unique structural composition (see pg 2) a dragging anchor. We noted also that, since Nov'20, there has been a strong recovery in fortunes relative to both the US and broader global equities. The manager has the flexibility to invest in the US, and notably they have reduced the portfolio weighting from 36% to just 4% in the past couple of years.

Looking forward, there is a strong tilt towards energy, real estate and financials, sectors that the manager expects to continue growing revenues in an inflationary environment. A key challenge now is to improve the relative performance after a couple of dull years and the significant Real Estate overweight is likely to be an important factor; here, the manager highlights trough valuations which now compare with 2008 and 2020. We maintain our Buy recommendation.

**Interim results:** NAV and shareholder total returns were 3.4% and 2.5% vs. a benchmark total return of 10.7%. The underperformance was attributed to an underweight energy position, which produced a total return of 26.3%. The portfolio was materially overweight in Real Estate, which generated a total return of -21.7%. While the relative performance was disappointing, Canadian equities proved a safe harbour in extremely challenging markets with the MSCI AC World and S&P Composite both recording sterling-adjusted total returns of -10.7%.

**Significant improvement in dividend cover:** The company has paid two interim dividends of 1.275p/sh, in line with last year when the total dividend was 5.1p/sh. A key feature was a 20.8% increase in EPS to 2.85p/sh, which represents dividend cover of 1.12x. This compares favourably with dividend cover of 0.71x and 0.95x in 2020 and 2021 respectively. Most holdings have increased dividends in the past year, with some raising dividends several times. Also, several companies in the Energy sector have paid special dividends. The Board has said that it may consider future increases to dividends if revenues continue to exceed the pay-out level.

**Outlook:** Despite global economic headwinds, the manager believes that Canadian equities are uniquely positioned to outperform, noting that given Canada is a net exporter of oil and electricity, it will benefit from higher energy prices. There is significant exposure to real estate (31.2% of NAV), financials (28.6% of NAV) and energy (18.0% of NAV), which should benefit from the sustained reopening of the global economy and are well-placed to grow revenues in an inflationary environment. Middlefield focuses on identifying the highest quality businesses with a particular emphasis on balance sheet strength and cash-flow generation.

### Current market statistics

Price	130p
Dividend Yield	3.9%
Discount (1-year Z score)	12.4% (0.3)
Portfolio as percentage of NAV	117%
Market Capitalisation	£138m
Ongoing charge	1.24%

### Board of Directors/Manager - Skin in the game

Director (year appointed)	Fee (£,000)	Investment (£,000)
Michael Phair, Chairman (2019)	31	65
Kate Anderson (2021)	25	0
Phillip Bisson (2006)	25	2,334
Janine Fraser (2022)	25	0
Richard Hughes (2018)	27	164
Dean Orrico – non independent (2006)	Waived	130

**Manager** The manager's investment is valued at £130k

**Skin in the Game/Diversity - 2021** [Click here](#)

Source: Company Data

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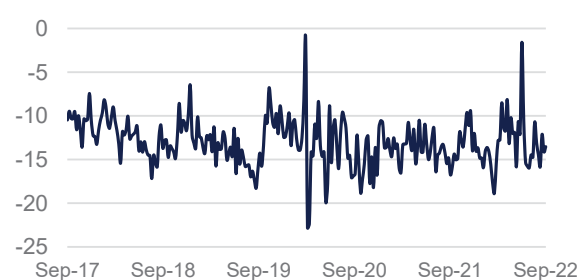
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NAV vs. benchmark (total return, base = 100)



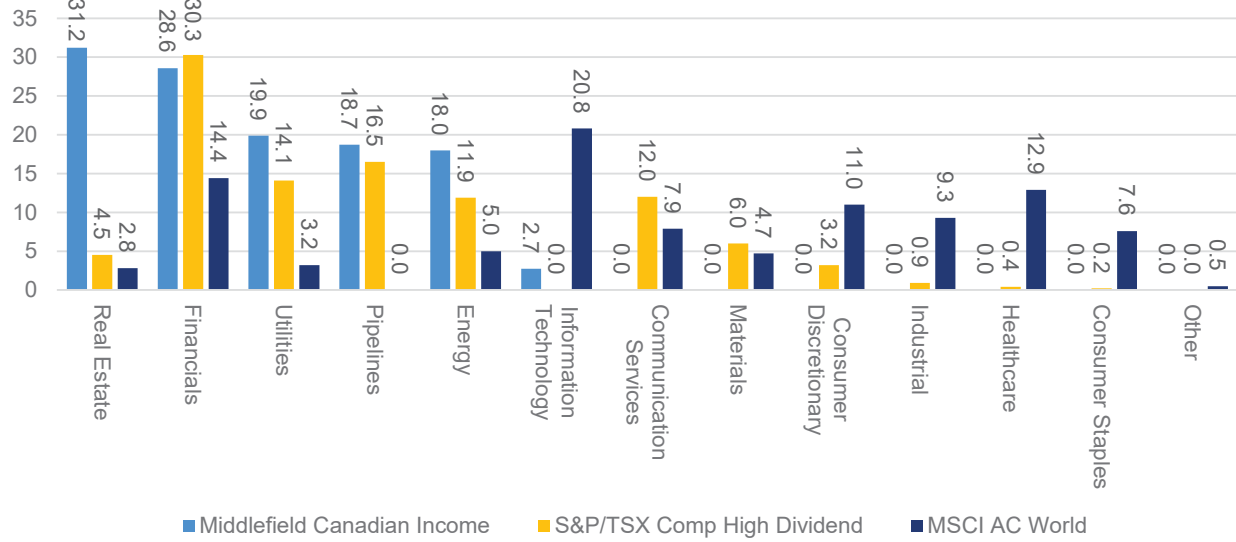
Source: Refinitiv

Discount (%)



Source: Refinitiv

Sector exposure: % of NAV vs. S&P/TSX Composite High Dividend and vs. MSCI AC World (@ 30 June 2022)



Source: Interim Accounts

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### Stock ratings for IC research produced by Investec Bank plc

	Expected 12 month relative TSR vs peer group or benchmark	All stocks		Corporate stocks	
		Count	% of total	Count	% of total
Buy	Outperform	90	71%	26	29%
Hold	In line	21	17%	0	0%
Sell	Underperform	16	13%	0	0%

Source: Investec Securities estimates

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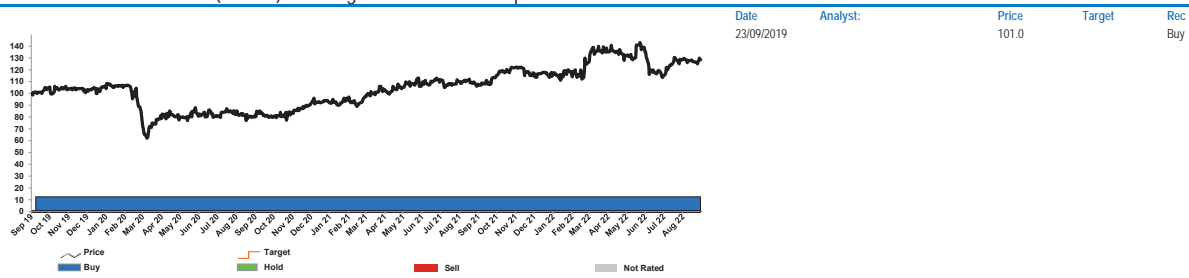
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Middlefield Canadian Income 

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## Recommendation history (for the last 3 years to previous day's close)

Middlefield Canadian Income (MCT.L) – Rating Plotter as at 16 Sep 2022



Source: Investec Securities / FactSet

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