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CAPITAL MARKETS

5 Blue Chip Stocks to Buy August 2023

Report written by Clear Capital research

Promotion

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The UK market is trading at lower valuations compared to other major markets and historical averages due to factors such as sticky inflation, a tight labor market, energy-related issues, and early retirements. This has created opportunities in undervalued sectors.

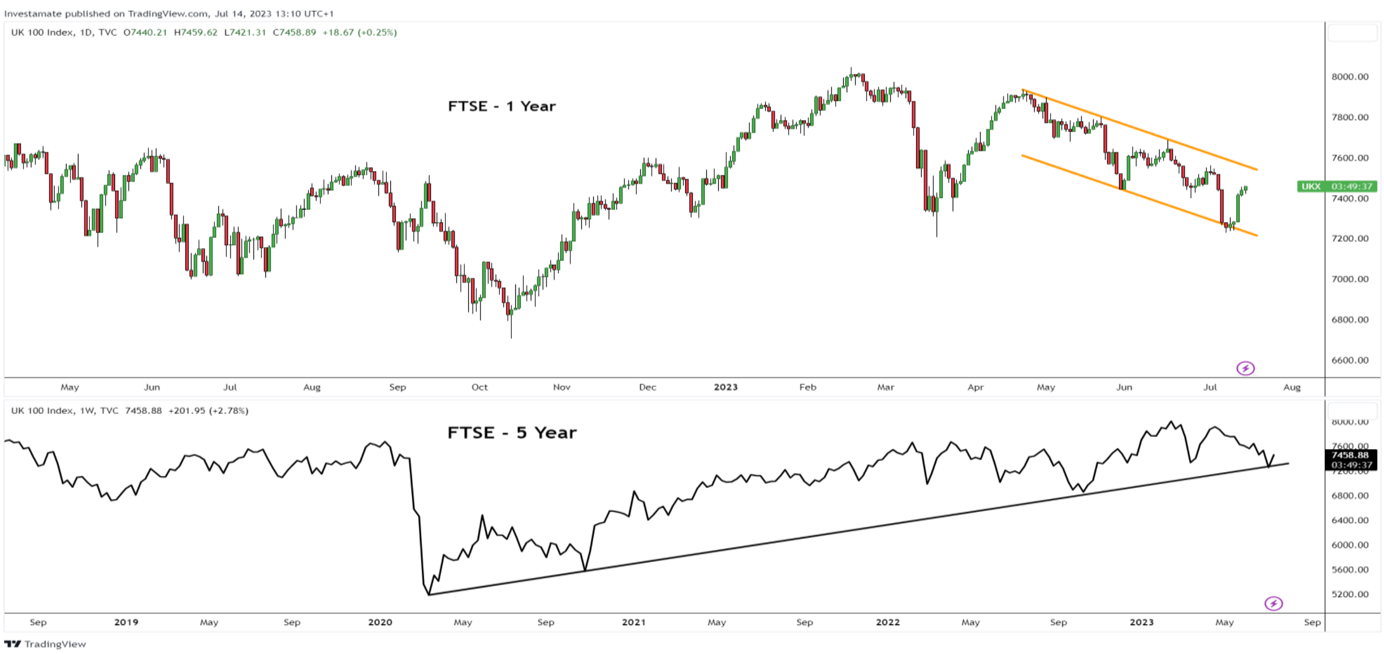
Bank of England Governor Bailey commented that inflation and wage increases at current rates are not consistent with the inflation target. He did, however, add that underlying inflation pressures are set to recede and that some of the previous tightening has yet to hit the UK. In this context, the bank is paying particular attention to wages growth and services-sector inflation.

There was a further shift in UK futures with markets now pricing in a 50% chance that interest rates would be increased to a peak of 6.50%.

The latest UK inflation data will be released on Wednesday with position adjustment into the data likely to have an important impact on Sterling. Consensus forecasts are for the headline annual rate to decline to 8.3% from 8.7% with the core rate retreating to 6.8% from 7.1%.

The commodity-heavy FTSE 100 has fallen over 7% from its record high levels hit in February as prices of oil and metals wavered on demand concerns in China. Despite this, we still believe there are opportunities in the UK stock market at present. We have selected 5 stocks we believe could outperform the UK benchmark in the coming weeks and months.

The image below shows a chart of the FTSE100 index. Having reached new all-time highs in early 2023, the index has struggled to regain that momentum. Trading has largely been sideways to lower in recent months as the economic backdrop continues to temper interest. The index appears to be trading in a bearish channel at present, and therefore we may continue to see lower prices in the short term. Despite the short-term direction, there are still opportunities.



Source: Tradingview.com

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ASTRAZENECA (AZN)

AstraZeneca PLC is a science-led biopharmaceutical company. The Company focuses on the discovery, development, and commercialization of prescription medicines in Oncology, Rare Diseases, and BioPharmaceuticals, including Cardiovascular, Renal & Metabolism, and Respiratory & Immunology.

Fundamentals

AstraZeneca is seen as a compelling investment by UBS, which upgraded its stock rating to "buy" from "neutral." The recent de-rating following a disappointing lung cancer trial is viewed as an entry point for investors. AstraZeneca offers a leading pipeline and growth potential at an attractive price. Nvidia's partnership with Recursion Pharmaceuticals highlights the growing role of AI in the medical industry. Nvidia will provide its cloud platform for training Recursion's AI models, which will be used for drug discovery. AI-powered drug development has the potential to reduce costs and time significantly. AstraZeneca's strong pipeline and the transformative impact of AI in drug discovery make it an appealing investment opportunity.

Market Capitalisation: £162.55Billion
Sector: Pharmaceuticals & Biotechnology
12 Month Price Range: 9356 – 12392p
5 Year Price Range: 4731 – 12392p

Technical Analysis

The long-term uptrend is in excellent shape as displayed in the 5-year chart below. In recent weeks the shares have dropped lower from new all-time highs. The pullback has found support at a medium-term uptrend level as well as a horizontal support at 10040p. Buying interest has returned to this level, suggesting that the value has returned to AstraZeneca. Buy on pullbacks towards 10050p.

Verdict: BUY
Buy between 10050 – 10500p
Stop: 9910p
Target: 12000p

Source: Tradingview.com, HL.com, Dividenddata.co.uk, Dow Jones Newswire & LSE.co.uk

BARRATT DEVELOPMENT (BDEV)

Barratt Developments PLC is engaged in housebuilding and commercial development. The Company's business is acquiring land, obtaining planning consents and building homes. Its three consumer brands, Barratt Homes, David Wilson Homes, and Barratt London offers a variety of properties across the United Kingdom. It also has a commercial business, Wilson Bowden creating spaces from industrial and office buildings to retail and leisure.

Fundamentals

Despite challenges in the housing sector, Barratt Developments' shares are seen as a buying opportunity by analysts. The company's fiscal 2023 update indicates that it will meet market expectations for pretax profit, although home completions have declined and fewer sales are projected for fiscal 2024. Barratt Developments is adapting its model to drive revenue growth and is in good financial health. The stock's lower valuation may attract investor interest. Rising interest rates have affected the housing market, but Barratt Developments is positioned to weather the difficult period due to its strong balance sheet. Analysts believe that the company offers long-term value and expects a rebound when market conditions improve.

Market Capitalisation: £4.00Billion

Sector: Household Goods

12 Month Price Range: 305.9 – 515p

5 Year Price Range: 305.9 – 742.8p

Technical Analysis

Barratt Development shares have struggled for direction in recent weeks having previously been trending lower for many months. Support appears to have been found around 400p, and there has been an increase in green candles. This suggests there is increasing buying interest and the shares could be ready for a fresh move to the upside over the short to medium term. Providing the support at 400p continues to hold, then further upside is likely.

Verdict: BUY

Buy between 400 – 420p

Stop: 373p

Target: 495p

Source: Tradingview.com, HL.com, Dividenddata.co.uk, Dow Jones Newswire & LSE.co.uk

HALMA (HLMA)

Halma plc is a United Kingdom-based life-saving technology company. It operates through three segments. The Safety segment provides products that protect people, property and assets and enable safe movement in public spaces.

Fundamentals

Halma shares are considered a buy due to positive factors despite a margin miss in the safety-equipment maker's full-year results. While margins fell short of expectations, Halma's FY 2023 revenue exceeded forecasts, and the company experienced growth in all sectors and regions. The strong order book and order intake in line with revenue growth at the start of FY 2024 support expectations of solid cash performance. Analysts note the company's long-term growth drivers, strong operating margins, and robust customer investment cycles. Consensus expectations are for good organic constant currency revenue growth and an increase in return on sales. Shore Capital rates the stock as a buy, expecting consensus estimates to rise slightly despite increased finance costs.

Market Capitalisation: £8.44Billion
Sector: Electronic & Electrical Equipment
12 Month Price Range: 1922.5 – 2521p
5 Year Price Range: 1203 – 3170p

Technical Analysis

It has been a tough couple of years for Halma, having previously seen impressive growth in the years previous. Following a prolonged period of consolidation it does appear as though the shares are beginning to form a new bullish trend. There is a sequence of higher lows and higher highs that has been in place since mid-2022. The latest pullback to the trend line has been met with fresh buying interest, which is very encouraging for the medium term prospects. Further upside is expected and a resumption of the uptrend.

Verdict: BUY
Buy between 2175 – 2230p
Stop: 2015p
Targets: 2710p

Source: Tradingview.com, HL.com, Dividenddata.co.uk, Dow Jones Newswire & LSE.co.uk

LLOYDS BANK (LLOY)

Lloyds Banking Group plc is a United Kingdom-based financial services provider. The Company provides a range of banking and financial services that is focused primarily on retail and commercial customers. It operates through three segments: Retail, Commercial Banking, and Insurance, Pensions and Investments.

Fundamentals

Lloyds Banking shares are seen as a buy based on several factors. The Bank of England's stress test results indicate that Britain's largest lenders, including Lloyds, have sufficient capital to withstand severe financial stress, boosting confidence in the sector. The test considered scenarios more severe than the 2008 global financial crisis, including higher inflation, rising interest rates, and economic downturns. Lloyds passed the test without capital inadequacies, reflecting the bank's robust capital and liquidity positions. Additionally, Citi believes that investors should buy on weakness, citing cheap valuations, high capital return yields, and the potential for structural hedges to provide support in the coming years. Citi analysts have a buy rating for Lloyds and highlight its resilience amid interest rate risks.

Market Capitalisation: £28.64Billion

Sector: Banks

12 Month Price Range: 37.27 – 52.59p

5 Year Price Range: 22.2 – 57.58p

Technical Analysis

Lloyds shares have found support at a major level around 42.3p in recent weeks. Over the medium term the share price has been contained within a bearish channel, however we have now seen the shares break from this channel to the upside. This suggests the corrective phase is now over and a continuation higher could play out. Pullbacks towards support between 43 – 45p could provide an opportunity to buy in anticipation of higher prices towards 52p.

Verdict: BUY

Buy between 43.3 – 45p

Stop: 41p

Targets: 52p

Source: Tradingview.com, HL.com, Dividenddata.co.uk, Dow Jones Newswire & LSE.co.uk

RIO TINTO (RIO)

Rio Tinto plc is a United Kingdom-based mining and metals company. The Company is principally engaged in the production of materials essential to human progress. The Company's segments include Iron Ore, Aluminium, Copper and Minerals. The Company operates an integrated portfolio of Iron Ore assets, which includes a network of 17 mines, four independent port terminals, and a rail network spanning approximately 2,000 kilometers.

Fundamentals

Rio Tinto shares are considered a buy for several reasons. The stock is currently trading at an attractive forward price-earnings ratio of 8.4 and offers a high dividend yield of 7.6%. The expected acceleration of global GDP growth, particularly in emerging markets, is likely to drive increased demand for industrial commodities, benefiting Rio Tinto. The company has made significant capital investments while maintaining a strong free cash flow of $36.1 billion, with a focus on metals that will benefit from the global energy transition, such as lithium, copper, and aluminum. This diversified portfolio positions Rio Tinto well for future growth. Despite a recent decline in shares, the stock is considered undervalued and offers an attractive risk-reward profile.

Market Capitalisation: £84.87Billion
Sector: Mining
12 Month Price Range: 4108 – 6207p
5 Year Price Range: 2259 – 6207p

Technical Analysis

The long-term trend in Rio Tinto remains impressive. The recent corrective move has seen the share price drop towards this long-term uptrend support line. In the short term we can see horizontal support around 4965p and there has been a sharp bounce from this level. While the long-term trend continues to support prices, we would use any pullbacks to this line as an opportunity to buy for the medium term.

Verdict: BUY
Buy between 4965 – 5150p
Stop: 4685p
Targets: 6000p

Source: Tradingview.com, HL.com, Dividenddata.co.uk, Dow Jones Newswire & LSE.co.uk

Why Clear Capital Markets?

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