

NOT WRONG BUT EUROPE SURPRISED

ANALYST

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THEMES

As one of the largest issuer-sponsored research firms, we are known for our bottom-up work on individual stocks. However, our thinking does not stop at the company level. Through our regular dialogue with management teams and investors, we consider the broad themes related to the companies we follow. Edison themes aims to identify the big issues likely to shape company strategy and portfolios in the years ahead.



UK equities

Not wrong to call them, but Europe surprised

Our December thematic [piece](#) suggested that the diversification away from the US market, which looked stretched from a valuation perspective, into markets that offered a higher margin of safety such as the UK (one of the cheapest markets globally) was partially correct. Since the start of the year, the S&P 500 has fallen c 6%, while we have seen the UK All Share up 2.8%, with the larger-cap indexes faring better. The UK gains are modest compared to European markets, with the DAX up 13% since the start of the year. Our core list has seen more changes than we would expect, with four of the 20 names switching – a sign that these are volatile and unusual times. The core list also reflects the themes driving the market: a flight to safety amid increasing geopolitical uncertainty and a steepening yield curve indicating outperformance in early cyclicals and defence stocks.

Trump and Germany are driving the key themes

The general consensus is that tariffs lead to inflation, lower growth, rising interest rates and increased geopolitical uncertainty. Couple these with the cuts in spending being undertaken by the US Department of Government Efficiency (DOGE) and there is a greater risk that US growth will be curtailed. Recent economic reports out of the US have disappointed. The newly elected German government reacted to the US demand to share the burdens of NATO evenly, by relaxing fiscal rules to fund a rearmament programme. This is a seismic event, described in the media as a once-in-a-generation policy regime shift. The response was a steepening in the German yield curve. Asset allocators will look hard at Germany, the third-largest economy, moving from years of no growth into growth mode. The global volatility is driving a preference for large-cap liquidity and defensive companies, while the steepening yield curve in Germany makes it hard to look past financials and early-stage cyclicals. Defensives, early cyclicals and financials it is.

Changes to our showcase of UK companies

These are unusual times. Our core list is usually relatively stable, but four of 20 names on the list have changed this month. Coming in are Accsys Technologies, BAE Systems, Centrica, Compass Group and Telecom Plus. Dropping out are [Dowlais Group](#) (which recently received a bid from American Axle & Manufacturing Holdings), Gamma Communications and Renew Holdings. These changes broadly reflect the core themes described above: a shift to defence spending exposure and to larger-cap defensive names.

The UK continues to see outflows

Despite the UK market outperforming, February 2025 saw the sixth largest outflow from UK-focused funds, with investors withdrawing £1.2bn. Disappointment that the UK government has not seized the growth opportunity has overshadowed the rate cuts. UK companies continue to be bid for, with 13 bids announced since the start of the year, including for Dowlais, Alliance Pharma, Assura, Care REIT and Wood Group. While there are calls for reforms to support the UK market, and reforms continue to be worked on, we cannot see any near-term resolution if the UK government is looking at spending cuts in the spring budget. Buybacks and bids look to be the near-term support mechanism for the UK market.

Themes

17 March 2025

20 companies we showcase

[4imprint](#)

[Accsys Technologies](#)

[BAE Systems](#)

[Card Factory](#)

[Centrica](#)

[Creo Medical](#)

[Compass Group](#)

[Foctons Group](#)

[International Consolidated Airlines Group](#)

[ME Group International](#)

[Mitie Group](#)

[Pan African Resources](#)

[Plus500](#)

[Rightmove](#)

[Smiths News](#)

[Softcat](#)

[Target Healthcare REIT](#)

[Telecom Plus](#)

[Topps Tiles](#)

[Wheaton Precious Metals](#)

Companies in green are Edison clients.

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Featured showcase: Accsys Technologies

After years of disappointment, this is a turnaround story we want to put back on investors' radars. [Accsys Technologies](#) (LSE: AXS, £103m market capitalisation) is a chemical technology company enhancing the natural properties of wood to make high-performance and sustainable building products. Its processes are based on the acetylation of solid wood and wood elements. The stock is up 10% over the last month after a positive investor day. **Analyst: Johan Van Den Hooven.**

What do we like?

- **Strong growth potential:** the company is targeting a 14% CAGR in revenue and volume growth from FY25–30, driven by its expansion in the US and Europe.
- **Operational efficiency:** the Focus Strategy aims to maximise output at Accsys's Arnhem and Kingsport plants, with a run-rate target of 120,000m³ by FY30.
Margin expansion: we expect EBITDA to surge from €10.7m in FY25 to €54m by FY30, supported by increased sales, cost efficiencies and scale benefits.
- **Deleveraging and cash flow strength:** Accsys aims to eliminate net debt by FY30, with free cash flow improving from €6m in FY26 to €21m in FY30.
- **Valuation upside:** we recently raised the company's discounted cash flow valuation to €1.00 per share, highlighting its long-term potential.
- **Compelling product:** we direct investors to the [recent investor day](#), where the product was showcased compared to alternatives in the market. We came away with the belief that it is a best-in-class, sustainable building product (see also [thematic on climate](#) opportunities).
- **New management team and recent upgrades to forecasts:** after years of Accsys overpromising and underdelivering, we feel that the company is off investors' radars. A new management team is taking decisive steps and we upgraded our earnings estimates in December 2024 and our valuation in February 2025 on the basis of higher long-term margin targets.

What could derail the story?

- **Construction market exposure:** the company's growth is tied to demand in the construction industry, which remains cyclical.
- **Ramp-up uncertainty in the US:** the Kingsport plant's expansion timeline has been extended to five to six years, from the previous three-year target.
- **Raw material and energy costs:** rising costs for wood and acetic anhydride could put pressure on margins.
- **Market acceptance of Tricoya:** the adoption of Tricoya panels is progressing but at a slower-than-expected pace.
- **Competition and substitutes:** while Accoya has strong differentiation, alternative modified wood technologies could pose a threat in the long term.

We expect an FY25 trading update in early April, where we will be looking for further progress on the volume ramp up and cost savings. The company reports full year results in June 2025.

Featured showcase: BAE Systems

BAE Systems (LSE: BA, £47bn market capitalisation) is a leading global defence, aerospace and security company, supplying advanced military capabilities across land, sea, air, cyber and space. With geopolitical tensions driving increased defence spending, BAE Systems is well positioned to capitalise on growing demand. The stock has gained 25% over the last 12 months, and is set to benefit as defence spending increases in the UK and Europe.

What do we like?

- **Strong growth potential:** BAE Systems is experiencing increased visibility in its key markets, particularly in maritime and armoured vehicles, which contribute 33% of group revenues. The Global Combat Air Programme (Tempest) and the AUKUS submarine alliance provide long-term demand visibility.
- **Record order backlog:** the company's backlog reached a record £77.8bn at the end of 2024, underscoring strong demand across its product lines.
- **Margin expansion and reinvestment:** underlying earnings rose to £3.015bn in 2024, with notable performance in electronic systems and services. The integration of Ball Aerospace has also enhanced earnings.
- **Strategic defence tailwinds:** rising European defence budgets and shifting procurement preferences toward domestic manufacturers favour BAE Systems as one of Europe's leading defence contractors.
- **Diverse product portfolio:** from electronic warfare and hypersonic missiles to advanced naval systems and next-generation fighter jets, BAE's broad exposure to high-tech defence programmes positions it well for sustained demand.

What could derail the story?

- **Government budget sensitivity:** about 25% of revenues are tied to the UK defence budget, which faces political scrutiny and spending constraints. Given the recent uplift in spending, this should not be a near-term issue, however.
- **Investment cycle limiting cash flow:** we expect free cash flow to dip slightly due to reinvestments, particularly in maritime and armoured vehicle production.
- **Market volatility and geopolitical risks:** while defence spending trends are favourable, shifts in geopolitical alliances, such as potential US policy changes toward European defence commitments, could have an impact on future order flows.
- **Valuation complexity:** despite its growth trajectory, BAE trades between its median and industry peer valuations, making it less of a deep-value play but still attractive on a long-term basis.

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