Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

13th January 2017

Market overview

Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
FTSE 100	7292.37	▲1.35	▲5.83	▲23	7292.37	5536.97	12/1/17	11/2/16
FTSE 250	18303.5	▼-0.0257	▲3.75	▲9.68	18413.3	14967.9	10/1/17	27/6/16
FTSE SmallCap	5246.09	▲1.1	▲4.39	▲17.3	5268.22	4145.59	11/1/17	12/2/16
FTSE AIM 100	4169.47	▲1.02	▲6.04	▲22	4170.39	3075.85	10/1/17	11/2/16
S&P 500	2275.32	▲0.279	▲0.813	▲17.4	2276.98	1829.08	6/1/17	11/2/16
UK Treasury 10 Year Par Yield	1.39	▲2.96	▼-8.55	▼-21.5	1.77	0.61	12/1/16	12/8/16
Brent Oil Spot $	$55.315	▼-2.75	▼-0.216	▲79.8	$56.965	$27.765	29/12/16	20/1/16
Gold Spot $ per oz	$1193.58	▲1.07	▲2.62	▲9.84	$1366.48	$1077.03	6/7/16	14/1/16
GBP/USD - US $ per £	1.22038	▼-1.75	▼-3.73	▼-15.5	1.47895	1.21697	22/6/16	27/10/16
GBP/EUR - Euros per £	1.1449	▼-2.26	▼-3.88	▼-14	1.3313	1.1066	12/1/16	13/10/16

The stock markets continue to hit new highs. In the UK, the FTSE 100 has been on a spectacular run of hitting new closing highs since the start of the year and has appreciated by 31.8% since the lows of last February. Commodity prices have seen strong gains in recent weeks and this is powering many FTSE 100 mining shares to new 52 week highs.

The gold price has also been staging something of a recovery in recent weeks after going through a period of being very unloved. Gold is traditionally seen as a source of insurance against stock market turmoil but this is not the likely reason for its rally given the buoyant state of share prices in general. It could be a sign that some people are beginning to worry about inflation.

The pound is very close to its year low against the US dollar. This is has helped to buoy the shares of exporters and companies with a high proportion of overseas earnings.

Top 10 FTSE All-Share winners

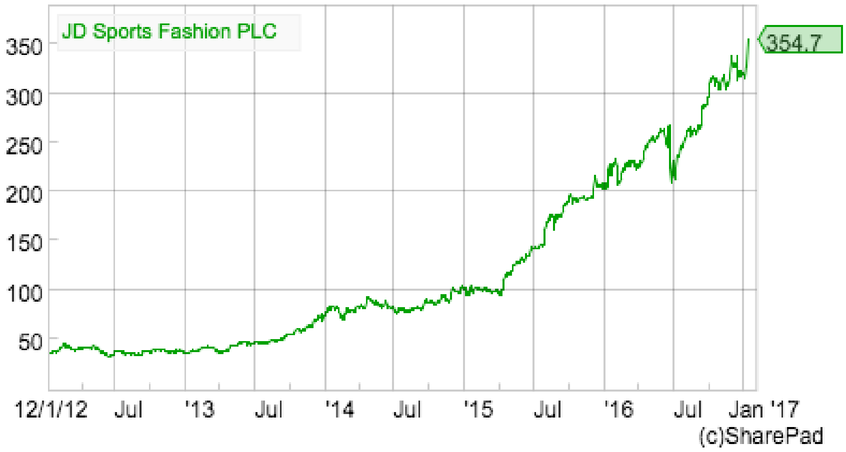
No.	TIDM	Name	%chg 1w
1	FENR	Fenner PLC	▲23
2	PMO	Premier Oil PLC	▲16.5
3	GOCO	Gocompare.com Group PLC	▲15.9
4	KAZ	KAZ Minerals PLC	▲15.8
5	AAL	Anglo American PLC	▲14.5
6	RNO	Renold PLC	▲14.3
7	GYM	The Gym Group PLC	▲14.2
8	SVS	Savills PLC	▲13.2
9	GMS	Gulf Marine Services PLC	▲13.1
10	ZTF	Zotefoams PLC	▲11.7

Top 10 FTSE All-Share losers

No.	TIDM	Name	%chg 1w
1	COB	Cobham PLC	▼-17
2	SPI	Spire Healthcare Group PLC	▼-11.8
3	LRD	Laird PLC	▼-10.1
4	AO.	AO World PLC	▼-10
5	CWD	Countrywide PLC	▼-9.92
6	JE.	Just Eat PLC	▼-8.93
7	ISAT	Inmarsat PLC	▼-8.84
8	CTR	Charles Taylor PLC	▼-8.37
9	ALM	Allied Minds PLC	▼-8.35
10	NANO	Nanoco Group PLC	▼-8.24

Share Discussion: JD Sports (LSE:JD)

Thursday saw JD Sports release a very impressive trading statement. The self professed 'king of trainers" told investors that like-for-like (LFL) sales which had been increasing at a rate of 10% during the first six months of the year had continued at the same rate for the rest of 2016. Not many - if any - bricks and mortar retailers have been able to do this.



What makes JD Sports' performance even more impressive is that it comes on the back of very strong sales growth during the last few years. As they say in the trade, it was up against very tough comparatives.

Year end January	Change in LFL Sales (%)
2012	-1.2
2013	2.5
2014	6.7
2015	12
2016	10
2017F	10

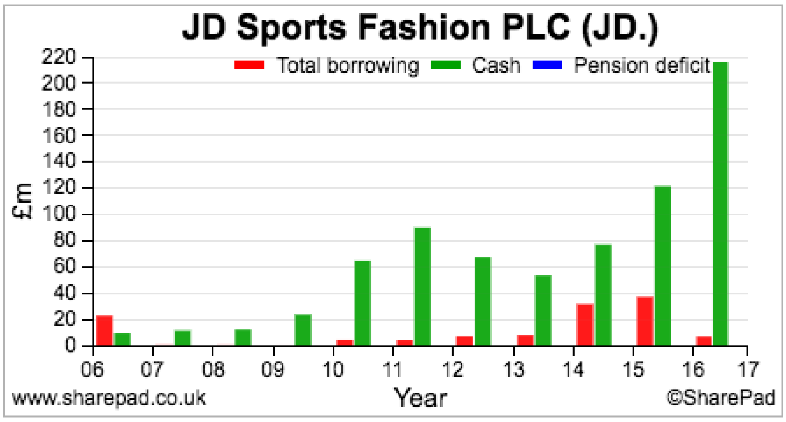
It is clear that the company is doing well. Demand for sports shoes and sports fashion is currently very strong and JD is one of the best companies placed to exploit it. Its expansion into Europe looks to be progressing nicely whilst in the UK it is also benefitting from the woes of Sports Direct - its main competitor.

As the company has said itself, it is unreasonable to expect LFL to continue growing at their current rate, but it does seem reasonable to assume that they will keep on growing for a while.

Trading has been so good that pre-tax profit for the year to January 2017 which was expected to be around £200m is now expected to be up to 15% higher or up to £230m. Put another way, the company's profits this year will be what City analysts were expecting them to be in two years' time.

It's no surprise that the shares shot up on Thursday morning as clearly there is going to have to be some major revision to profit forecasts. On pre-tax profit of £230m and assuming the same tax rate (22.5%) as the first six months of the year, and then taking away around £4m for minority interests, I get an estimated profit for shareholders of £174.25m or earnings per share (EPS) of 17.9p. At a share price of 357p this would equate to a PE of 20.

That's not cheap but bear in mind that the company has net cash balances which inflate the PE slightly (because the value of cash is included in the market capitalisation but produces very little in earnings). Net cash at the end of June was £231m but was probably flattered by quite low capex (£27m) which will have increased in the second half (£100m for full year) and the acquisition of Go Outdoors in November for £128m.

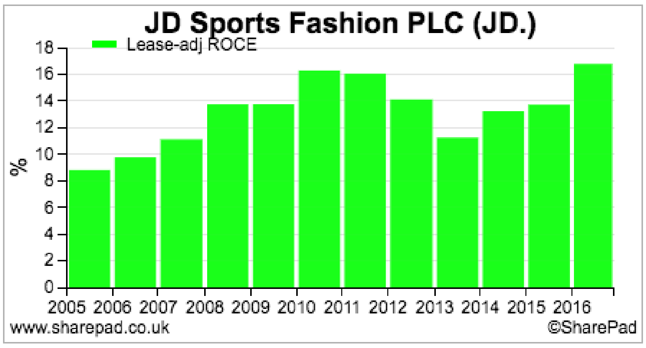


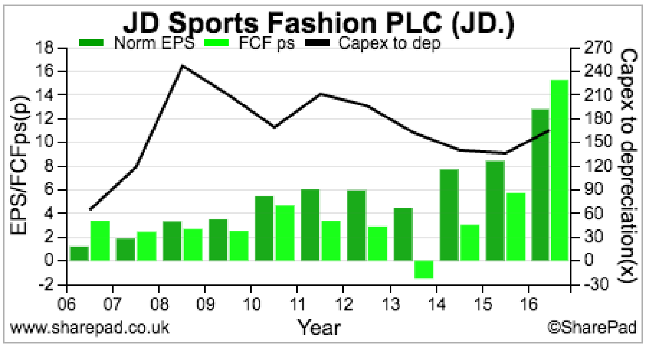
If I assume conservatively that cash balances at the end of the year are around £100m or 10.2p per share, then the PE comes down slightly to 19.3. (357p -10p of cash divided by 17.9p EPS estimate).

Previous consensus estimates for EPS growth in 2018 were for it to increase from 15.6p to 17.9p or 14.7%. This does not look unreasonable given the underlying growth, a continuing roll out of stores in Europe, a weak competitor in the UK and the improvements to come from buying Go Outdoors. If I apply this growth rate to my EPS estimate of 17.9p for January 2017 I get a January 2018 EPS estimate of 20.5p which puts the shares on a forward PE of 17.4 at 357p.

That's not outrageous by any means but is it enough to get someone to buy JD Sports shares. Momentum investors will probably like the shares but it seems there's an increasing amount to like about JD's improving fundamentals.

Lease-adjusted ROCE has been improving in recent years is now over my quality threshold of 15%. That said, ROCE will be diluted by the acquisition of Go Outdoors (£128m paid for £6m of operating profit or 4.7%) but the company will be hoping that it can start growing profits there.

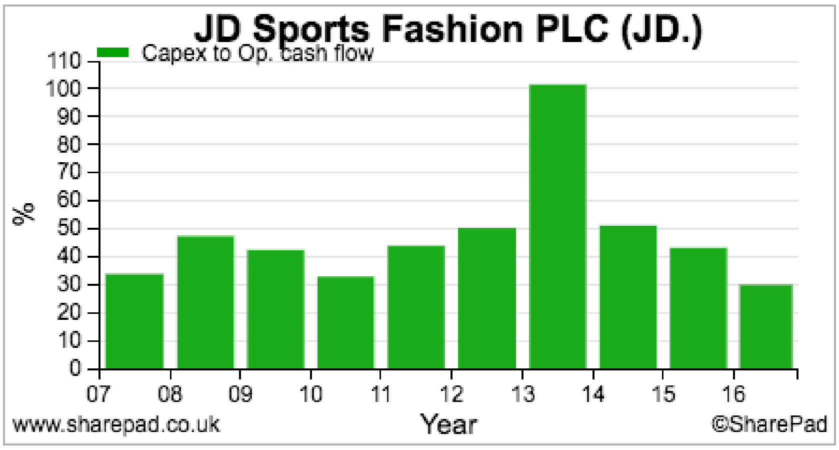




The company's free cash flow performance has also been improving as it turns more of its profits into free cash flow.

It also appears that the business is becoming less capital-intensive as its capex to operating cash flow ratio has been coming down. Bear in mind that this ratio is flattered by renting new shops and acquisitions both of which are not included in capex.

Generally speaking, I am not a fan of bricks and mortar retailing shares from a long-term investing viewpoint. The reason being is that they tend to have to spend lots of money to grow and that growth is often not sustainable as new stores mature. There is also the ever-increasing competition from internet retailing. As a result, I see many retailing shares - but not all - as ones for traders.



JD Sports may prove to be an exception to my general prejudice. I'll leave you to decide whether the shares are good value or not.

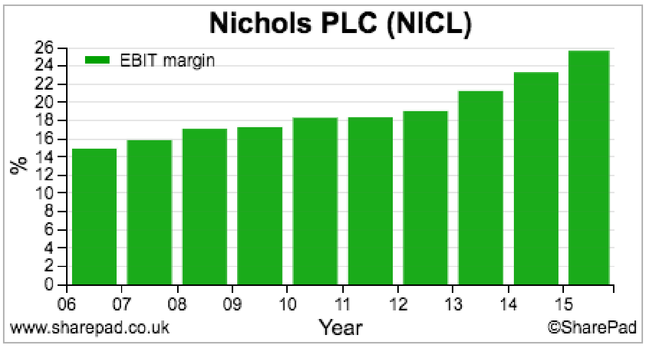
Share Discussion: Nichols (LSE:NICL)

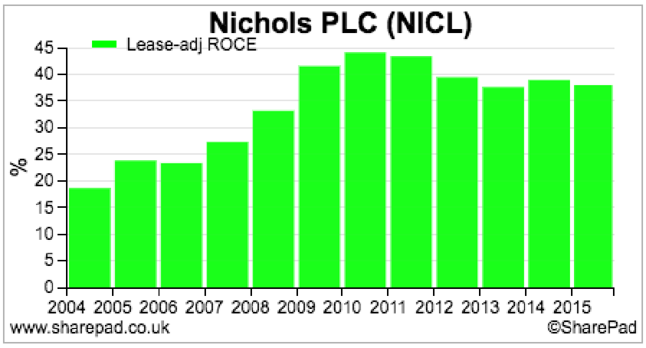
Nichols, the company behind the iconic Vimto drink has had a good 2016. This week's trading statement revealed that it had delivered steady growth in sales and had continued to take market share.

Nichols is a standout performer in a very competitive UK soft drinks market. It has refused to get involved in the aggressive price discounting - especially in fizzy drinks - that some of its competitors have engaged in. Instead it has pursued a strategy of value over volume which has seen its profit margins tick up nicely.

Vimto is quite unique amongst soft drink brands in that it has a strong presence in the still and carbonated markets. Still sales are growing in the UK and the company is seeing very good growth in the ready-to-drink sector. Vimto also remains a very popular drink in Africa and the Middle East.

This company is also quite similar to the high flying Fevertree (AIM:FEVR) in that it outsources the production and distribution of its drinks to third parties. This means that the company is not particularly asset-intensive which when combined with its very high profit margins allows it to earn very high returns on capital employed of nearly 40%.





As well as having a rock-solid brand in Vimto, Nichols has made a couple of decent acquisitions during the last couple of years. In 2015, it bought Feel Good, a company specialising in healthy soft drinks with natural ingredients and no added sugar. In 2016, it bought the other half of The Noisy Drinks Company which it didn't own, a company which specialises in frozen drinks - such as slush - but also comes with some very useful distribution assets.

I like the look of Nichols. It's the kind of business I'd like to have my own portfolio. It has the high profit margins and high ROCE that I look for in my investments. Vimto has been around since 1908 and my guess it will still be around in another 100 years. The only trouble is that the shares are quite richly valued.

Nichols PLC (NICL)	2013	2014	2015	2016	2017	2018
Fiscal period ending	31/12/13	31/12/14	31/12/15	1/12/16	1/12/17	1/12/18
£ millions unless stated	Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS						
Turnover	105.5	109.2	109.3	117.3	122.2	126.3
%chg	▼-2.1	▲3.5	▲0.1	▲7.3	▲4.2	▲3.4
EBITDA	23.0	25.9	28.5	31.0	32.0	33.1
EBIT	22.4	25.4	28.0	-	-	-
EBIT margin	21.3	23.3	25.7	-	-	-
EPS(p)	48.3	58.9	60.3	65.2	69.4	71.3
EPS % chg	▲16.6	▲22.1	▲2.3	▲8.1	▲6.4	▲2.7
DPS(p)	19.6	22.4	25.6	27.9	29.0	30.2
DPS % chg	▲13.3	▲14.2	▲14.3	▲9.0	▲3.9	▲4.1
Dividend cover	2.5	2.6	2.4	2.3	2.4	2.4

House broker N+1 Singer is forecasting EPS of 70p for 2017 which puts the shares on a forward PE of 22.6. That's not horrendous but for a company that is expected to deliver steady rather than stellar profits growth it suggests that a lot of good news is priced in. One for the watchlist probably.

Share Discussion: Morrisons (LSE:MRW)

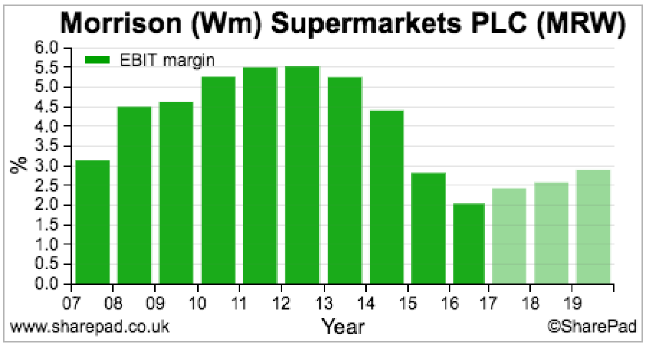
After years of dismal trading performances, perhaps Morrisons' Christmas trading statement is a sign that the worst is behind it. With 2.9% LFL sales growth (5.2% volume growth), shoppers are clearly returning to Morrisons.

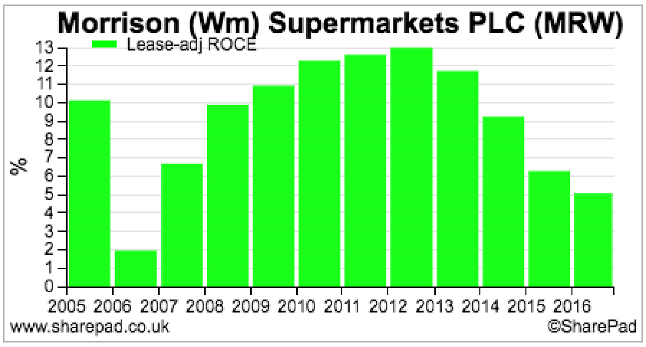
The grocer has performed better than Sainsbury's and Tesco over Christmas and the stock market liked the news that pre-tax profits for the year to January would be slightly ahead of the consensus £326m - more like £330m-£340m.

Yet to me, Morrisons remains in a difficult place. In my opinion, the reason why supermarket companies are struggling is because there are too many supermarkets chasing too few shoppers. Also, none of the supermarket groups have proven that they can make reasonable profits from home grocery deliveries.

Aldi and Lidl are still going to be opening lots of new supermarkets and this will undoubtedly take custom from the likes of Morrisons. The latest Kantar WorldPanel showed that it was still losing market share.

Although Morrisons' profit margins remain painfully thin. They are expected to improve slightly over the next few years but not by that much.





ROCE remains very low. This suggests to me that the carrying value of its supermarkets on the balance sheet are too high (they aren't earning enough profit to justify their value) and further asset write-downs cannot be ruled out.

Yet Morrisons' shares trade on a forward PE of 23 times - more than an outstanding business like Nichols above - which looks high given that the recovery in its profits is expected to slow down. The easy money looks to have been made with these shares.

Morrison (Wm) Supermarkets PLC (MRW)

← Prev Next →	2014	2015	2016	2017	2018	2019
Fiscal period ending	2/2/14	1/2/15	31/1/16	1/1/17	1/1/18	1/1/19
£ millions unless stated	Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS						
Turnover	17,680.0	16,816.0	16,122.0	16,431.7	16,866.1	16,565.3
%chg	▼-2.4	▼-4.9	▼-4.1	▲1.9	▲2.6	▼-1.8
EBITDA	1,172.0	859.0	712.0	802.1	848.4	889.3
EBIT	778.0	472.0	328.0	397.3	434.2	479.3
EBIT margin	4.4	2.8	2.0	2.4	2.6	2.9
EPS(p)	24.3	17.4	8.1	10.2	11.5	12.3
EPS % chg	▼-2.4	▼-28.6	▼-53.3	▲25.9	▲12.7	▲7.0
DPS(p)	13.0	13.7	5.0	5.3	5.5	6.3
DPS % chg	▲10.2	▲5.0	▼-63.4	▲6.0	▲3.8	▲14.5
Dividend cover	1.9	1.3	1.6	1.9	2.1	2.0

Filter of the week - Shares hitting new 52 week highs

This filter is really simple and can be easily set up in both ShareScope and SharePad. Investors are often advised to buy shares when they are cheap but in recent years buying shares which have already done well has allowed some to bag some impressive gains.

Buying shares at 52 week highs suggests that something good has been happening to the fortunes of the company behind the share. Those good things may keep on happening. It is not uncommon for shares to keep on rising and hitting a number of new highs, especially if profit forecasts are increasing.

On the next page is a list of shares in the FTSE All-Share hitting new 52 week highs.

Filtered FTSE All-Share sorted by Name (31 matches)

52 Week New Highs Add criteria Exit

%Chg since 1 y high Min: 0 Max: Edit

No.	TIDM	Name	Price	%Chg since 1 y high	Date 1 y high	%chg 1y	fc PE	fc Yield
1	AAL	Anglo American PLC	£13.2525	0	12/1/17	▲470	13.6	
2	ATS	Artemis Alpha Trust PLC	269.125p	0	12/1/17	▲12.7		
3	BA.	BAE Systems PLC	615.75p	0	12/1/17	▲18.1	15.2	3.5
4	BGS	Baillie Gifford Shin Nipp…	619p	0	12/1/17	▲38.8		
5	BLT	BHP Billiton PLC	£14.395	0	12/1/17	▲133	17.2	2.4
6	BIFF	Biffa PLC	182.5p	0	12/1/17		13.1	1.2
7	THRG	Blackrock Throgmorton …	356.125p	0	12/1/17	▲2.33		
8	BRWM	BlackRock World Mining…	369.125p	0	12/1/17	▲121		
9	BRBY	Burberry Group PLC	£15.685	0	12/1/17	▲42.2	21.3	2.5
10	CNE	Cairn Energy PLC	241.35p	0	12/1/17	▲88.1		
11	CLDN	Caledonia Investments …	£27.58	0	12/1/17	▲18.9		
12	NCYF	CQS New City High Yiel…	60.5p	0	12/1/17	▲11.5		
13	SMDS	DS Smith PLC	433.1p	0	12/1/17	▲12.1	13.6	3.2
14	ETI	Enterprise Inns PLC	128.875p	0	12/1/17	▲24.8	6.1	
15	EXPN	Experian PLC	£15.975	0	12/1/17	▲41	21.0	2.1
16	FENR	Fenner PLC	289.75p	0	12/1/17	▲126	22.6	1.2
17	GKN	GKN PLC	338.85p	0	12/1/17	▲17.5	11.6	2.7
18	GLEN	Glencore PLC	313.55p	0	12/1/17	▲335	36.0	0.9
19	GOCO	Gocompare.com Group …	80.25p	0	12/1/17		14.3	
20	HINT	Henderson International …	150p	0	12/1/17	▲28.9		
21	INVP	Investec PLC	558.75p	0	12/1/17	▲29	12.5	4.0
22	JD.	JD Sports Fashion PLC	351.45p	0	12/1/17	▲72.4	20.9	0.5
23	CHOO	Jimmy Choo PLC	146.625p	0	12/1/17	▲8.61		
24	KAZ	KAZ Minerals PLC	429.2p	0	12/1/17	▲347	14.7	
25	MNDI	Mondi PLC	£17.17	0	12/1/17	▲36.7	13.3	2.9
26	RIO	Rio Tinto PLC	£34.0225	0	12/1/17	▲106	19.2	3.0
27	RPS	RPS Group PLC	238.25p	0	12/1/17	▲2.36	17.3	4.1
28	SKG	Smurfit Kappa Group PLC	£21.30	0	12/1/17	▲19.2	11.8	3.1
29	TFIF	TwentyFour Income Fun…	114.5p	0	12/1/17	▲0.77		
30	VED	Vedanta Resources PLC	994p	0	12/1/17	▲325		2.1
31	VSVS	Vesuvius PLC	412.55p	0	12/1/17	▲36.7	16.5	4.0