Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

27th January 2017

Market overview

Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
FTSE 100	7161.49	▼-0.651	▲1.32	▲21.1	7337.81	5536.97	13/1/17	11/2/16
FTSE 250	18142.7	▼-0.444	▲1.3	▲12.1	18413.3	14967.9	10/1/17	27/6/16
FTSE SmallCap	5235.62	▼-0.0506	▲2.54	▲21.7	5274.5	4145.59	16/1/17	12/2/16
FTSE AIM 100	4169.67	▲0.155	▲4.29	▲29.4	4195.34	3075.85	16/1/17	11/2/16
S&P 500	2298.38	▲1.53	▲1.53	▲20.7	2298.38	1829.08	26/1/17	11/2/16
UK Treasury 10 Year Par Yield	1.41	▼-0.704	▲2.92	▼-17.5	1.72	0.61	26/4/16	12/8/16
Brent Oil Spot $	$56.365	▲3.98	▲2.44	▲81.3	$56.965	$30.81	29/12/16	9/2/16
Gold Spot $ per oz	$1185.74	▼-1.49	▲4.61	▲5.91	$1366.48	$1114.35	6/7/16	28/1/16
GBP/USD - US $ per £	1.25721	▲1.9	▲2.42	▼-12.3	1.47895	1.20401	22/6/16	16/1/17
GBP/EUR - Euros per £	1.1795	▲1.9	▲0.46	▼-10.7	1.3238	1.1066	1/2/16	13/10/16

UK stock markets are slightly down on the week with the exception of AIM. US stock markets continue to hit new highs.

The other main movements of note are the continued gains in the value of the pound against the US dollar and the euro.

Top 10 FTSE All-Share winners

No.	TIDM	Name	%chg 1w
1	SYNT	Synthomer PLC	▲16.1
2	LRD	Laird PLC	▲13.4
3	CHG	Chemring Group PLC	▲12.8
4	ANTO	Antofagasta PLC	▲11.3
5	IMI	IMI PLC	▲8.83
6	FDL	Findel PLC	▲7.51
7	NXG	NEX Group PLC	▲7.4
8	DIA	Dialight PLC	▲7.33
9	IBST	Ibstock PLC	▲6.88
10	SDL	SDL PLC	▲6.65

Top 10 FTSE All-Share losers

No.	TIDM	Name	%chg 1w
1	BT.A	BT Group PLC	▼-20.5
2	BMS	Braemar Shipping Services PLC	▼-18
3	LMI	Lonmin PLC	▼-15.7
4	RTN	Restaurant Group (The) PLC	▼-14.9
5	PHTM	Photo-Me International PLC	▼-12.1
6	DVO	Devro PLC	▼-11.7
7	PZC	PZ Cussons PLC	▼-10.9
8	BTG	BTG PLC	▼-9.42
9	AA.	AA Ltd	▼-9.36
10	ENQ	EnQuest PLC	▼-8.69

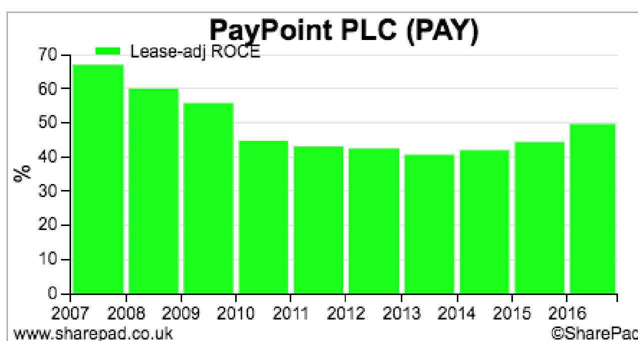
If you haven't already done so, don't forget to check out my free **Step-by-Step Guide to Investment Analysis**, It's a comprehensive handbook aimed at helping you identify high-quality stocks for your portfolio - without any of the jargon. You can read it for free **here**.

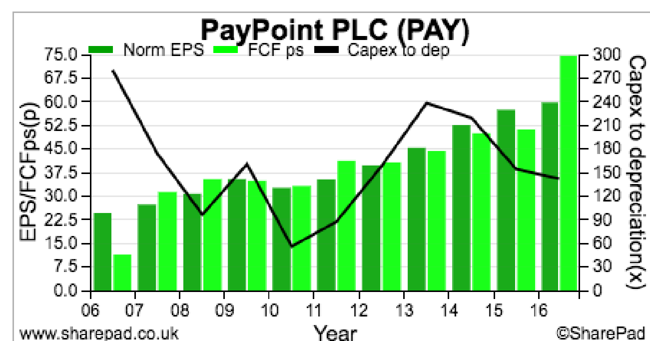
Share Discussion: PayPoint (LSE:PAY)

If you live near a local corner shop or a convenience store there's a good chance that you will have seen a PayPoint logo outside. The company's retail terminals bring lots of benefits to shopkeepers and customers by making their lives easier.

For several years Paypoint has earned money when people top up their gas and electricity prepayment accounts or pay-as-you-go mobile phones. It offers customers other options such as paying rents to local authorities, transferring money, withdrawing cash or buying a TV licence. There is a PayPoint terminal in over 29,000 shops in the UK. The company also has a Romanian business with over 11,000 terminals across the country.

Years of steady growth have allowed PayPoint to create a very attractive business. It is not very capital intensive and earns very high returns on capital employed.





It has also been good at turning most of its profits into free cash flow and virtually all of the company's profits are paid out in dividends to shareholders.

These two characteristics are hallmarks of a quality business. The third and most vital component that is needed is the ability to keep growing profits and cash flows in the years ahead. This is where there is some uncertainty around PayPoint.

Thursday's third quarter trading statement showed that growth is hard to come by for PayPoint. Net revenues have increased by just 0.2% to £35m. Some areas of the UK business such as parcels and card payments are doing well. Others such as prepayments of energy bills and top ups of mobile phones continue to decline.

When you are analysing a company you must not rely on numbers alone, no matter how important they are. It is important to try and understand the business behind the numbers and find out why a company's profitability and cash flow are good or bad. On top of that, it is crucial to try and work out whether things will get better or worse in the future.

This is where I start to worry slightly about PayPoint. The world is changing as more people move away from using cash in favour of mobile and internet payments. Smart meters will change the way

that people are billed for their electricity and gas, whilst monthly mobile phone contracts are now so cheap that topping up your pay-as-you-go mobile is rapidly becoming a thing of the past.

PayPoint knows this and is trying to adapt. Its bread and butter business will not collapse overnight but it seems reasonable to expect it to keep on declining. The company is rolling out a new terminal which is more focused on serving shopkeepers than customers.

The new terminal will enable small retailers to keep track of their stocks and tell them when to reorder items which will be great for managing cash flow. The fact that terminals also help retailers process credit and debit card payments is another plus. I think this terminal will go down well with retailers. Time will tell whether it can get PayPoint's UK business back to a meaningful position of sales and profits growth.

The other interesting part of its business is the Collect + parcels joint venture with Yodel. This allows people to collect and drop off parcels at their local corner shop. I have used this service and think it's great. It means I don't have to drive to my local post office to wait in a queue. I get a returns receipt and know that everything has been sorted.

In a world where more and more shopping is done online, making it easier for customers to collect and return their purchases has to be a good idea. Collect + includes big retailers such as Amazon, John Lewis and ebay.

Collect + is growing rapidly and is now being offered at over 6,000 outlets. Up until now, this business has not made a profit for PayPoint but hopefully that will change as the business continues to grow. The company has recently changed its arrangement with Yodel so that it is no longer exposed to rising logistics costs. It is also free to open up the service to other parcel carriers. It will get less money per parcel in return, but PayPoint hopes that the growth in parcel volumes will offset this.

The Romanian business is growing and increasing its profits. I expect this trend to continue as Romania is still more reliant on cash for buying things than the UK for now.

PayPoint PLC (PAY)

← Prev Next →	2014	2015	2016	2017	2018	2019
Fiscal period ending	31/3/14	31/3/15	31/3/16	1/3/17	1/3/18	1/3/19
£ millions unless stated	Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS						
Turnover	212.2	218.5	212.6	166.5	164.2	169.4
%chg	▲1.7	▲3.0	▼-2.7	▼-21.7	▼-1.4	▲3.2
EBITDA	50.3	56.0	56.9	60.0	64.0	66.5
EBIT	45.2	49.5	51.0	54.0	56.7	59.2
EBIT margin	21.3	22.7	24.0	32.4	34.5	34.9
EPS(p)	52.6	57.4	59.8	63.1	66.0	68.8
EPS % chg	▲15.9	▲9.2	▲4.1	▲5.6	▲4.6	▲4.2
DPS(p)	35.3	38.5	42.4	62.3	63.4	66.0
DPS % chg	▲16.1	▲9.1	▲10.1	▲46.9	▲1.8	▲4.1
Dividend cover	1.5	1.5	1.4	1.0	1.0	1.0

Profit growth is expected to be modest going forward. However, with all the profits being paid out as dividends (note the forecast dividend cover of 1.0 in the table above) the shares have a very high dividend yield of over 6.5%. Dividend growth - like earnings growth - should be modest. The long term uncertainty on the prospects for the UK business means that PayPoint shares are likely to be more attractive to income seekers rather than those seeking growth.

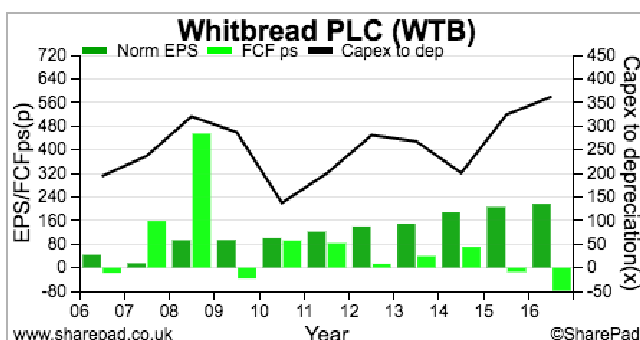
Share Discussion: Whitbread (LSE:WTB)

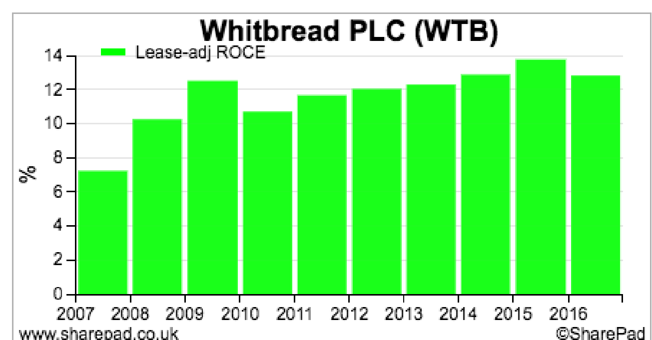
Twenty years ago when I got my first job as an investment analyst, Whitbread was one of the first companies I looked at. Back then it was still a brewer, owned lots of pubs and David Lloyd leisure clubs. Today it is a more focused business with two very strong consumer brands in Premier Inn hotels and Costa Coffee.

The company has been throwing a lot of money at both of its businesses and has rapidly increased the number of its hotel rooms, coffee shops and coffee machines. This has seen it deliver reasonably strong growth in profits but this has come at the expense of free cash flow. The company ploughed back more cash back into its business that it produced last year and its capex ratio for the last decade has averaged 65% - this is a capital intensive business.

Generally speaking, I have a preference for companies with a stable and high ROCE which also produce lots of free cash flow. I also look for companies which don't need to spend a lot of money to grow (read a capex ratio of less than 30%).

That said, a company which can invest lots of money at a high ROCE can still be a good investment even if free cash flow is low or negative. This is because after the spending moderates it is possible that free cash flow will increase significantly.





Is Whitbread one of these companies?

I am not sure it is. ROCE is reasonable but not outstanding. What concerns me about Whitbread is that it has to spend too much money to grow, particularly with Premier Inn Hotels. I am also concerned that maintenance capex to keep hotels looking nice for customers is also quite high.

Despite my view that the country is literally saturated with coffee shops, I like the Costa business more. It is less capital intensive and I like the fact that it has a significant franchise business which tends to produce very stable and predictable free cash flows.

Whitbread's third quarter trading statement highlighted that Costa is performing a lot better than Premier Inn.

Costa's total sales were up 12.5% as the company has exceeded its target for new shops and coffee machines. Like-for-like (LFL) sales were up a healthy 4.3%. I go on a lot about how investors need to be very careful with their interpretation of LFL sales as they can be distorted by a maturation effect when lots of new shops are being opened.

What I mean here is that LFL sales can grow because shops can take over a year to reach their sales potential. The shops are not included in LFL during their first year but they are in their second and therefore can naturally boost LFL.

It's what happens after year two that really matters. Can LFL sales keep on growing? Companies such as Restaurant Group are an example of what can happen when a business has reached its optimum level of stores - its LFL sales have fallen sharply as has its share price.

The situation at Premier Inn is more concerning. Total sales are up by 9.2% and LFL sales are up by 1.8%. That's alright but a closer look at the trading statement is more revealing.

One of the most closely watched numbers in the hotel industry is something called revenue per available room or revpar for short. It is calculated by multiplying the room's occupancy rate (how booked it has been) by the room rate.

% change vs. prior year	Premier Inn UK(*) (4) only			Total UK market(*) (5)	Midscale & economy market(*5)
	Total Sales	Like for Like revpar	Total revpar	Total revpar	Total revpar
Q3					
Total	8.7%	-1.3%	-1.0%	-0.3%	-0.4%
Regional	9.0%	-0.4%	-0.1%	1.4%	0.6%
London	7.4%	-4.2%	-6.0%	-2.2%	-3.5%
39 weeks					
Total	8.7%	-0.6%	-0.7%	0.9%	0.9%
Regional	9.5%	0.6%	0.5%	2.9%	2.2%
London	5.7%	-4.4%	-6.5%	-1.6%	-3.9%

Premier Inn's UK revpar has been falling but it is London where this has been the most significant. Some City analysts have pointed to the threat by companies such as Airbnb - where people rent out rooms in their houses - to Premier Inn but it is difficult to know if this is happening. What is clear is that Whitbread's London business is under significant pressure.

The company intends to open another 3,500 rooms this financial year with another 14,000 rooms (in the UK and abroad) in the pipeline.

Whitbread shares have fallen on the back of its trading update as investors are rightly worried about the prospects for the company.

Profits growth should be reasonable for the year to March 2017 but is expected to moderate thereafter.

Whitbread PLC (WTB)

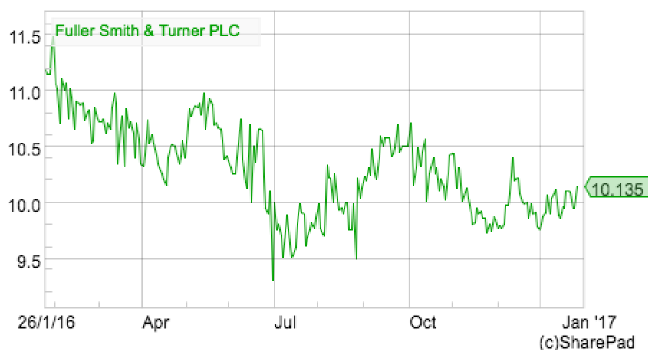
← Prev Next →		2014	2015	2016	2017	2018	2019
Fiscal period ending		27/2/14	26/2/15	3/3/16	1/3/17	1/3/18	1/3/19
£ millions unless stated		Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS							
Turnover		2,294.3	2,608.1	2,921.8	3,142.3	3,373.9	3,681.4
%chg		-	-	▲12.0	▲7.5	▲7.4	▲9.1
EBITDA		580.0	678.2	724.9	800.0	852.8	920.5
EBIT		427.5	509.8	537.4	595.0	635.6	677.3
EBIT margin		18.6	19.5	18.4	18.9	18.8	18.4
EPS(p)		188.2	205.5	217.0	247.4	260.3	279.1
EPS % chg		-	-	▲5.6	▲14.0	▲5.2	▲7.2
DPS(p)		68.8	82.2	90.4	94.3	100.3	108.8
DPS % chg		-	-	▲10.0	▲4.4	▲6.4	▲8.5
Dividend cover		2.7	2.5	2.4	2.6	2.6	2.6

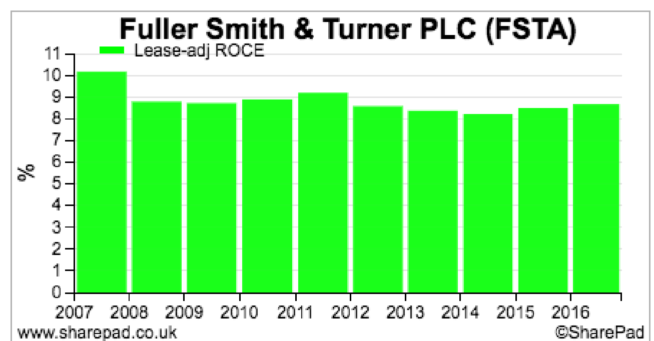
The shares are trading on a significantly lower valuation than they were a couple of years ago but they are still on a forecast PE of around 16 times. That's not particularly cheap or expensive, but I find it difficult to see the shares rallying from here.

That said, these shares are not without potential. If Whitbread followed the example of InterContinental Hotels and move from an owner to a franchisor of hotels its ROCE and free cash would increase and become more stable which would probably result in a more valuable business.

Share Discussion: Fuller, Smith & Turner (LSE:FSTA)

Last week, I looked at the shares of JD Wetherspoon and its pub strategy based on selling value for money food and drinks to its customers. This week I am taking a look at Fuller, Smith & Turner (Fullers), the London brewer and owner of premium, upmarket pubs.





I'm not a fan of pub shares due to their low ROCE and Fullers is no exception in this respect.

However, if you wanted to own a chain of pubs then London is probably the best place in the country to do so. It has lots of people with money to spend where eating out is part of the culture.

Fuller's third quarter trading statement shows that its managed pubs which are designed to exploit this trend are doing well and that its brewing business has had a good Christmas.

Running pubs is hard work and there are a lot of pressures on costs coming this year in the form of higher business rates and higher wages.

What potentially interests me about Fullers is whether the current share price perhaps undervalues its freehold property assets. The company has £538m of tangible assets on its balance sheet at the end of March 2016 and a net asset value per share of 928p. This compares with a current share price of 1013p at the time of writing.

Having had a brief look through the 2016 accounts it seems that around £500m of property is related to land and buildings and most if not all of that value is stated at initial cost rather than current market value. Even though Fuller's shares do not look really cheap at just over 16 times forecast EPS they look to be substantially underpinned by their property value given how buoyant the London and south east property markets have been in recent years.

Share Discussion: BT (LSE.BT.A)

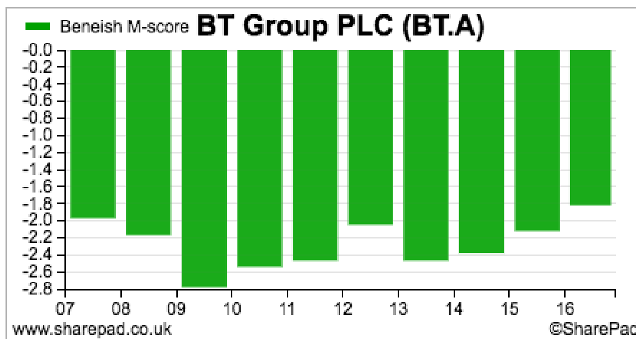
Could you have spotted its accounting scandal in advance?

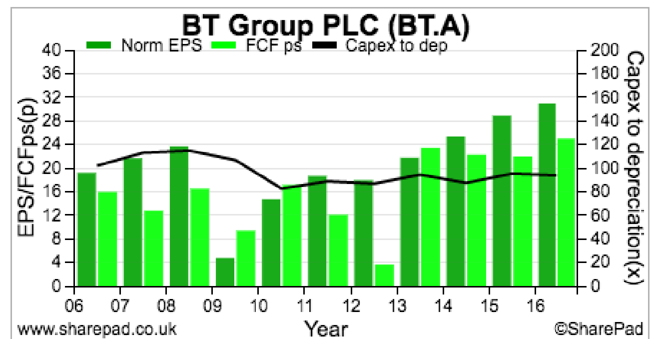
BT shocked the markets this week when it announced some serious dodgy accounting in its Italian business. The bottom line effect will be a £200m hit to full year profits and a £500m hit to free cash flow due to some inappropriate working capital movements. In 2018 profits and free cash flow will take another £200m hit.

Investors hate anything which questions the integrity of a company's accounts and the shares duly plunged by more than 20%. If that wasn't bad enough, BT said that its business customers were spending less on new projects so profits from that area of the business would be lower than expected.

Hindsight is a wonderful thing but investors will rightly ask themselves if they could have spotted this dodgy accounting. The Beneish M-Score (click here to read more about this) was devised to identify companies with dodgy accounts. According to Beneish's formula an M-Score higher than -2.22 is a sign that something isn't quite right.

BT's score last year was -1.8 according to SharePad which may have been a sign of trouble. I'm not convinced about this at all. The Italian business accounted for only 1% of BT's profits and prior to last year BT's M-Score had looked fine most of the time.





It's also worth noting that 88 shares in the FTSE 350 have suspicious accounts according to their latest M-Score. That may be true for a small number of them but I seriously doubt that there is a big problem that hasn't been spotted.

BT has not been turning all its profits into free cash flow despite spending roughly the same amount of money on capex as depreciation. This is not a sign of dodgy accounting in my view but more to do with the big cash top up payments that BT is having to pay into its final salary pension scheme, which continues to be a big problem for the company.

My view is that this dodgy accounting - whilst not good - is likely to be a one-off event.

This does not mean that BT does not face challenges. The future of its ownership of Openreach (the UK telecoms and broadband network) is still under a cloud whilst it continues to splash out large amounts of cash on sporting rights to protect its broadband market share. The pension fund has the potential to soak up lots of the company's cash flow.

Yet BT is still expected to generate £3.2bn of underlying free cash flow next year and increase its dividend by 10% this year and next. With a forecast dividend yield of over 5%, I'm sure some income seekers will be tempted by the shares despite the risks.

Filter of the week - Dividend Aristocrats

A company's dividend history can give the investor some insight into how resilient a company's business has been in good times and bad. Companies that have been able to grow their dividends for many years through recessions might rightly be seen as being somewhat exceptional.

Below is a filter of FTSE 350 shares that have grown their dividends every year for the last twenty years and are still expected to keep on growing them.

Dividend aristocrats — Add criteria | i | Exit

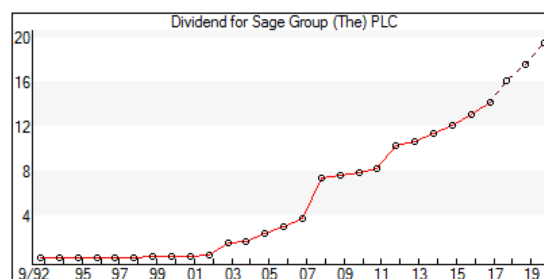
- ☑ Dividend per share years of growth adjusted for splits & consolid... Min: 20 Max: — Edit
- ☑ forecast Dividend per share change % adjusted for splits & cons... Min: 2 Max: — Edit

No.	TIDM	Name	Dividend per share yrs gr Adj	fc Dividend per share %chg Adj	fc Yield
1	SSE	SSE PLC	23	▲2.0	6.1
2	PZC	PZ Cussons PLC	23	▲3.6	2.8
3	SGE	Sage Group (The) PLC	23	▲13.8	2.5
4	SXS	Spectris PLC	22	▲3.8	2.1
5	BNZL	Bunzl PLC	22	▲8.9	2.0
6	RPC	RPC Group PLC	22	▲22.7	2.0
7	DLN	Derwent London PLC	23	▲9.9	1.9
8	CWK	Cranswick PLC	23	▲12.0	1.8
9	SPX	Spirax-Sarco Engineerin...	23	▲7.4	1.7
10	FSJ	Fisher (James) & Sons ...	21	▲9.7	1.7

You can't do this search in ShareScope but there is a preloaded Data Mining filter (SS: Progressive dividends) which searches for shares which have grown their dividend for at least ten years and which have a current PE and forecast PE below their sector average.

By moving the mouse over the dividend or dividend growth column, you'll see the dividend growth history on the pop-up chart. See the pop-up chart for Sage below-right.

No.	Name	fc Div Yield	fc Div gr%	fc PE
1	Carillion PLC	8.28	3.9	6.5
2	SSE PLC	6.07	2.0	14.1
3	Stagecoach Group PLC	5.67	5.3	8.8
4	National Grid PLC	4.77	1.5	14.0
5	Beazley PLC	4.49	80.4	12.7
6	BAE Systems PLC	3.56	2.1	15.0
7	IMI PLC	3.45	1.0	20.5
8	Sky PLC	3.41	2.2	17.2
9	Computacenter PLC	3.21	17.1	14.5
10	Babcock International Group PLC	3.05	7.7	11.4
11	Atkins (W S) PLC	3.03	8.2	11.8
12	Diageo PLC	2.89	4.5	21.2
13	PZ Cussons PLC	2.80	3.6	17.8
14	Sage Group (The) PLC	2.55	14.1	19.9
15	Spectris PLC	2.14	3.9	20.2
16	Hill & Smith Holdings PLC	2.13	20.4	18.2
17	RPC Group PLC	1.96	22.7	17.6
18	Fisher (James) & Sons PLC	1.67	9.7	21.0



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