Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

30th June 2017

Market overview

Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
FTSE 100	7350.32	▼-1.2	▼-2.61	▲15.6	7547.63	6360.06	2/6/17	29/6/16
FTSE 250	19346.4	▼-1.59	▼-3.39	▲20.9	20024.9	15669.7	26/5/17	6/7/16
FTSE SmallCap	5578.73	▼-0.647	▼-1.46	▲26.5	5661.48	4408.17	26/5/17	6/7/16
FTSE AIM 100	4836.6	▼-0.557	▼-2.14	▲45.8	4969.33	3308.83	2/6/17	6/7/16
S&P 500	2440.69	▲0.254	▲1.03	▲17.9	2453.46	2070.77	19/6/17	29/6/16
UK Treasury 10 Year Par Yield	1.1	▲5.77	▲6.8	▲5.77	1.54	0.61	26/1/17	12/8/16
Brent Oil Spot $	$47.455	▲4.77	▼-9.15	▼-6.87	$56.965	$41.965	29/12/16	2/8/16
Gold Spot $ per oz	$1249.75	▼-0.144	▼-1.36	▼-5.04	$1366.48	$1128.22	6/7/16	15/12/16
GBP/USD - US Dollar per British Pound	1.29806	▲2.38	▲1.3	▼-3.51	1.34525	1.20401	29/6/16	16/1/17
GBP/EUR - Euros per British Pound	1.1367	▼-0.0352	▼-1.28	▼-6.03	1.2097	1.1066	29/6/16	13/10/16

Top 10 FTSE All-Share winners

No.	TIDM	Name	%chg 1w
1	OXB	Oxford BioMedica PLC	▲44.5
2	PMO	Premier Oil PLC	▲10.9
3	ENQ	EnQuest PLC	▲10.3
4	ALM	Allied Minds PLC	▲9.29
5	CWD	Countrywide PLC	▲9.15
6	TNI	Trinity Mirror PLC	▲8.88
7	FXPO	Ferrexpo PLC	▲8.17
8	KAZ	KAZ Minerals PLC	▲8.16
9	VED	Vedanta Resources PLC	▲7.77
10	EVR	Evraz PLC	▲7.65

Top 10 FTSE All-Share losers

No.	TIDM	Name	%chg 1w
1	NTG	Northgate PLC	▼-14.5
2	SGC	Stagecoach Group PLC	▼-10.1
3	WIN	Wincanton PLC	▼-9.86
4	HIK	Hikma Pharmaceuticals PLC	▼-8.96
5	GHG	Georgia Healthcare Group PLC	▼-8.59
6	JD.	JD Sports Fashion PLC	▼-8.15
7	SHP	Shire PLC	▼-7.96
8	MRO	Melrose Industries PLC	▼-7.85
9	AO.	AO World PLC	▼-7.82
10	PRV	Porvair PLC	▼-7.73

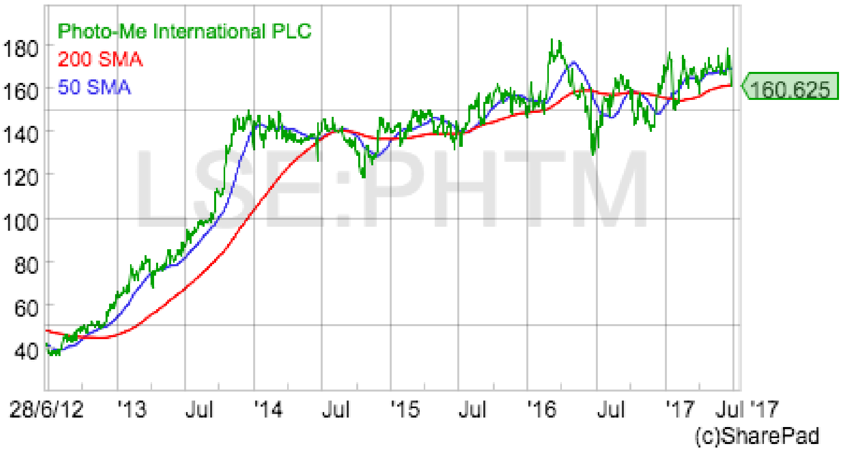
Share Discussion: Photo-Me International (LSE:PHTM)

Photo-Me is well known for its photo booths which are commonly found in places such as railways stations and supermarkets. Many of you have probably used one of them at some point during your lifetime. The company is less well known for owning lots of self service washing machines and digital printing kiosks.

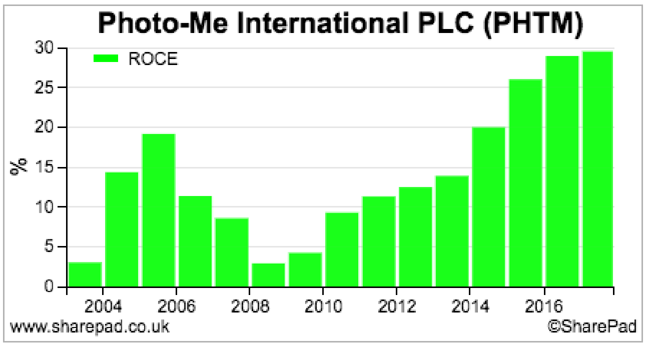
The market seems to struggle with this company as the share price chart below highlights. Its share price has essentially moved sideways for the last three and a half years as people continually question the future of its businesses.

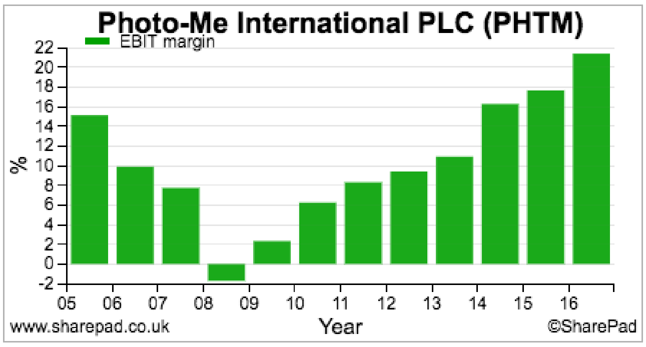
This week the company revealed record annual profits and a 20% increase in its dividend per share. Yet the market gave the news a big thumbs down with the shares falling by more than 6% on the day of the results.

Without knowing anything else, this is difficult to understand. ROCE and profit margins have been rising steadily upwards since the last recession and are now at impressive levels.

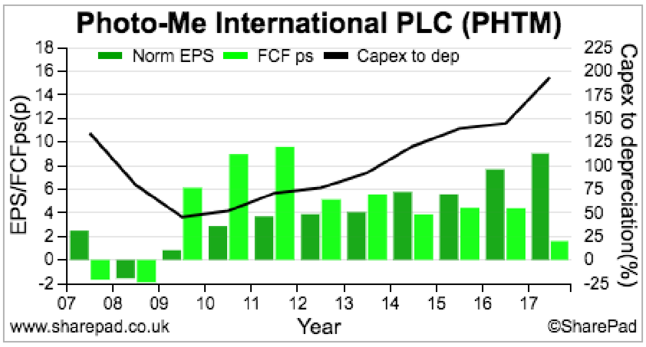


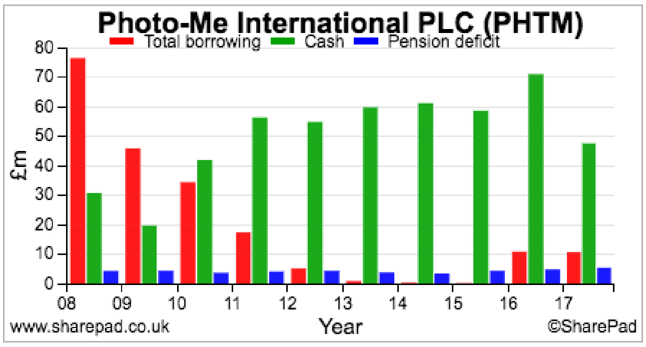
Maybe there are some concerns on free cash flow conversion and the heavy levels of investment?





But there should be no cause for concern regarding the company's financial position as it still retains a decent net cash balance.





As is usually the case, closer scrutiny of a company's performance can usually help explain what's been going on.

90% of Photo-Me's profits come from abroad and it has been a big beneficiary from the weakness of the pound. Stripping out this effect, underlying sales growth was 3.3% and underlying growth in

	Revenue Year to 30 April				Operating profit Year to 30 April			
	2017 GBPm	2017(1) GBPm	2016 GBPm	Change %	2017 GBPm	2017(1) GBPm	2016 GBPm	Change %
Continental Europe	111.7	97.6	93.7	+19.2%	33.9	29.6	24.1	+40.7 %
UK & Republic of Ireland	53.6	53.1	45.8	+17.0%	7.3	7.2	8.0	(8.8)%
Asia & ROW	49.4	39.3	44.5	+11.0%	8.4	6.9	10.7	(21.5)%
	214.7	190.0	184.0	+16.7%	49.6	43.7	42.8	+15.9 %
Corporate					(2.8)	(3.2)	(3.1)	(9.7)%
	214.7	190.0	184.0	+16.7%	46.8	40.5	39.7	+17.9 %

pre-tax profit was 4.2%. That's not particularly impressive or anything to shout about.

UK results were disappointing as the photo booth business acquired from Asda in 2016 lost money. Profits in Asia fell heavily as the Japanese business did not progress as expected. Some City analysts actually trimmed their profit forecasts for 2018. In today's stock market that is a good enough reason for a share price to fall.

Photo-Me International PLC (PHTM)

← Prev Next →		2015	2016	2017	2018	2019	2020
Fiscal period ending		30/4/15	30/4/16	30/4/17	1/4/18	1/4/19	1/4/20
£ millions unless stated		Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS							
Turnover		177.2	184.0	214.7	227.6	240.4	252.9
EBIT		31.2	39.4	46.8	50.4	53.8	57.7
Norm Pre-tax		31.5	39.9	47.2	50.8	54.2	58.0
EBIT margin		17.6	21.4	21.8	22.2	22.4	22.8
EPS(p)		5.6	7.7	9.0	9.8	10.4	11.0
EPS % chg		▼-3.3	▲37.9	▲17.4	▲8.7	▲6.1	▲5.8
DPS(p)		4.9	5.9	7.0	8.4	9.0	9.5
DPS % chg		▲30.1	▲20.1	▲20.0	▲19.5	▲7.1	▲5.6

I must admit, I find this company to be quite opaque as it does not disclose its profitability by product line but by geography instead. What I can see is that it is a very profitable business at the moment. Whilst its photo booths, washing machines and kiosks are owned by the company, the only significant costs are maintenance and turnover-based rents to the shops and premises where they are located. This explains the high margins and ROCE.

My doubt is on how sustainable these profits and returns are. The company talks up the potential of photo kiosks for regular passport and driving licence photos as well as increased security requirements for photos - but I am not so sure.

I have just renewed my passport. My photo was taken with a smartphone against a white background and uploaded to the passport application website. A friend has just renewed their driving licence photo and was able to use the digital copy from her passport application. In both cases, there was no need to use a photo booth. The increasing use of do-it-yourself photos that are able to meet official photo identification requirements is a major threat to Photo-Me in my opinion.

A similar threat applies to the company's digital printing kiosks. There is an increasing trend not to print out photos anymore. Instead they are emailed or shared by apps such as Whatsapp or other social media channels.

The company is putting a lot of emphasis on future growth from its laundry business. It currently has 1965 self-service machines across 12 countries and wants to increase this number to 6,000 by 2020.

I remember using a launderette when I was a student and I can see how a demand still exists for them, especially for washing larger items. Photo-Me is targeting growth in Europe and Asia - especially Japan - by placing machines in high footfall areas such as supermarket car parks and petrol stations. It also owns 50 launderettes near town centres and has a strategy of buying underperforming launderette businesses and improving them.

My guess is that most of the company's growth is going to have to come from laundry but can it offset a mature, very profitable and possibly declining photo-booth business? City analysts are still forecasting modest profit growth for the company as a whole. Even for doubters such as me, this scenario would be welcome, and would support the 5% plus projected dividend yield.

Name	Close	Market Cap. (m)	fc PE	fc Yield	EPV ps (8%)	EPV yield (8%)	fc PEG
Photo-Me International PLC	162.75p	£612.7	16.6	5.2	121.3p	73.4	2.7

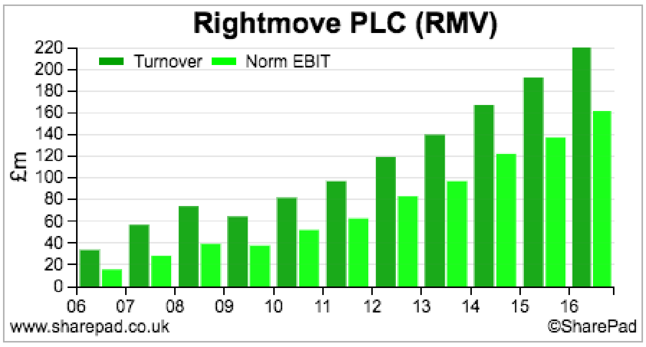
This is not a business for me, but perhaps sentiment is slightly too negative just now and might tempt some income-seeking investors.

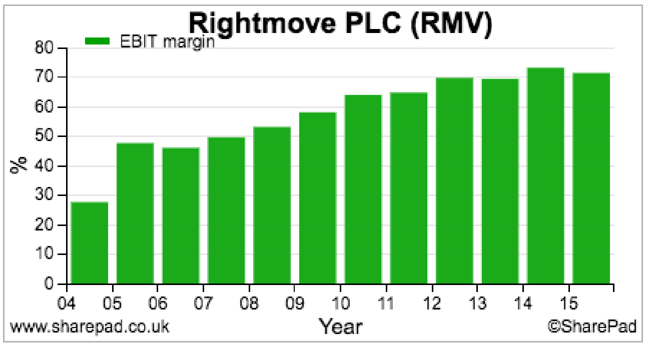
Share Discussion: Rightmove (LSE:RMV)

If you were to ask me for an example of a supremely profitable business then I'd struggle to find a better one than the property website Rightmove. The company has one of the most popular websites in the UK with over 1.5 billion page visits in 2016. It is utterly dominant in its field despite the efforts of companies such as Zoopla, primelocation.com and onthemarket.com to dislodge it.

As Britain's property market has boomed in recent years, Rightmove has been able to make hay from increased advertising spending by estate agents. It has also been able to profit from the huge growth in lettings and has wooed housebuilders looking to promote new homes.

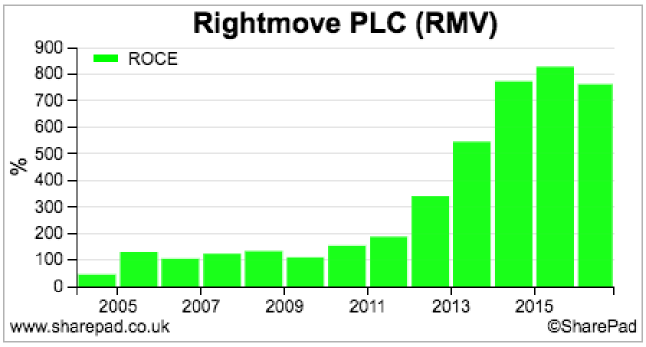
This has been music to the ears of Rightmove investors. The capital invested in the website and the business is very low and a large portion of its costs are fixed. Rapid sales growth has therefore produced stunning margins and returns on capital employed (ROCE).

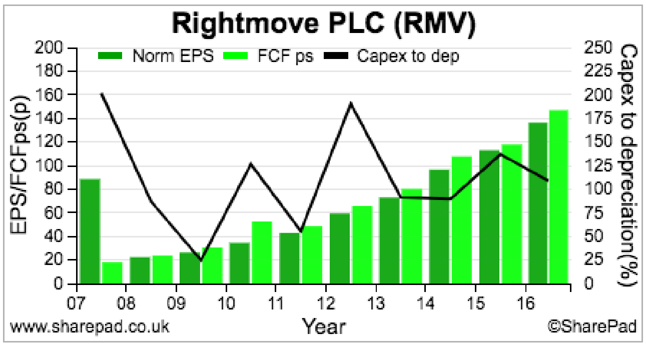




EBIT margins are greater than 70% whilst ROCE was a stratospheric 761% in 2016.

Even better, the company typically converts more than 100% of its profits into free cash flow. 63.5% of its turnover turns into free cash flow.





Leaving aside the stock market value of the company for a moment, who wouldn't want to own a slice of a business like this?

The company remains very bullish about its future prospects. It currently has over 20,000 advertisers on its site and has been very good at getting them to spend more money with it.

In 2016 the average revenue per advertiser (ARPA) increased by 12% to £842 per month. Rightmove has been offering its customers more value added services such as market analysis and valuation advice to boost this figure but it has also been very effective at putting its prices up and making those increases stick. Most estate agents know that they cannot afford not to be on Rightmove if they want to increase their sales.

Customers choosing to spend more

ARPA

Record ARPA

- ARPA[1] up £88 (+12%) to £842 per month (2015: £754)
- ARPA growth driven by product sales and pricing
- Continued healthy adoption of our highest value Optimiser package
- Significant headroom to grow revenue through more product sales, product innovation and pricing
- 2017 product sales and pricing progressing according to plan

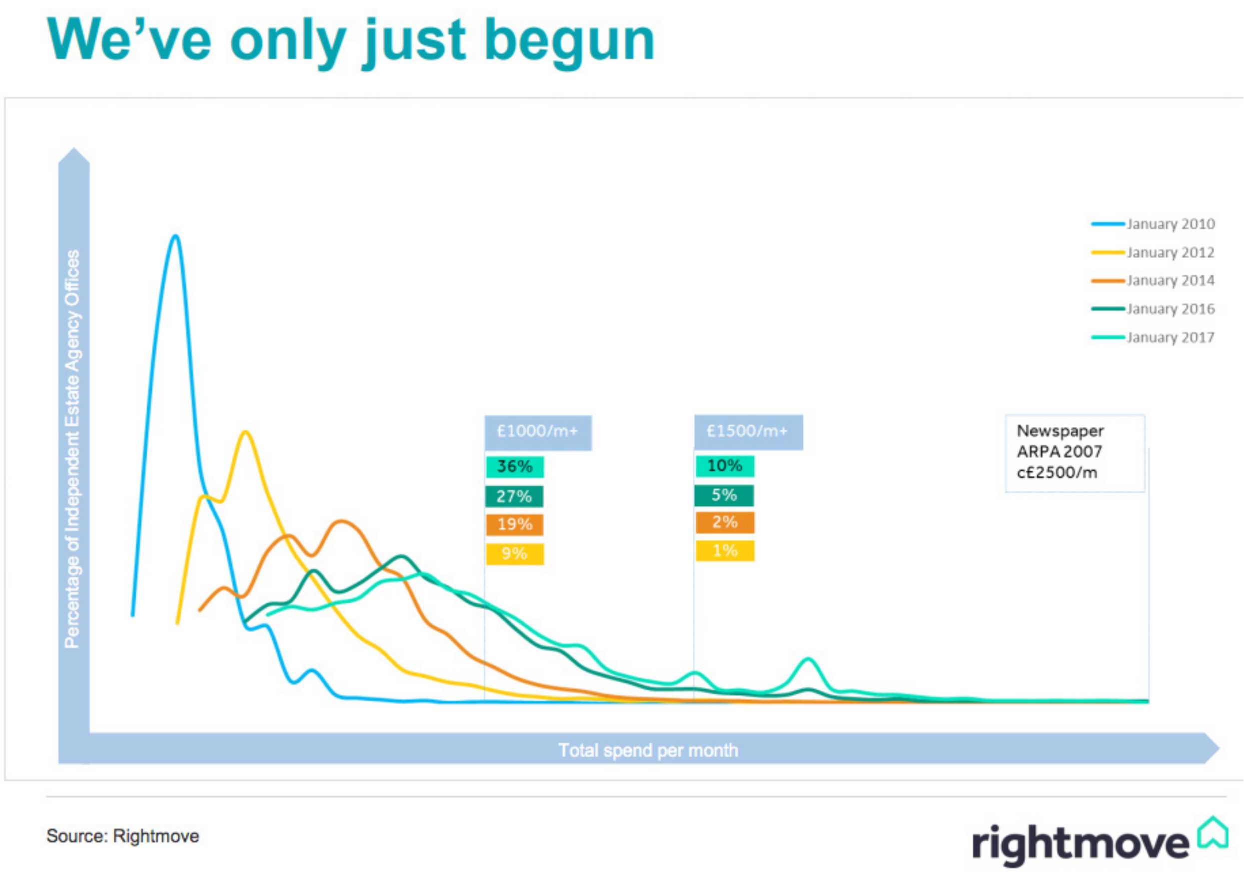
Source: Rightmove
1. Agency and New Homes customers.

rightmove

What is interesting is that Rightmove's customer base has increased by 9.2% since 2013 but ARPA per month has increased by a staggering 38.7%. As we have seen, most of this increase is flowing straight through to profits. In 2016, revenues increased by £27.9m in total with trading profits (EBIT) increasing by £24.4m.

Yet Rightmove thinks that ARPA can keep on increasing and points to the fact that a greater proportion of agents are spending more compared with a few years ago. It draws comparisons with ARPA for newspapers of £2500 per month back in 2007 but I struggle to see why estate agents would spend anywhere near that amount and why it is a valid comparison.

After all, many newspaper adverts are paid for by large consumer goods companies with vastly more profits and customer reach than estate agents selling houses in my opinion. If Rightmove could achieve £2500 per month in the not too distant future without losing customers then investing in the shares would be a no-brainer today.



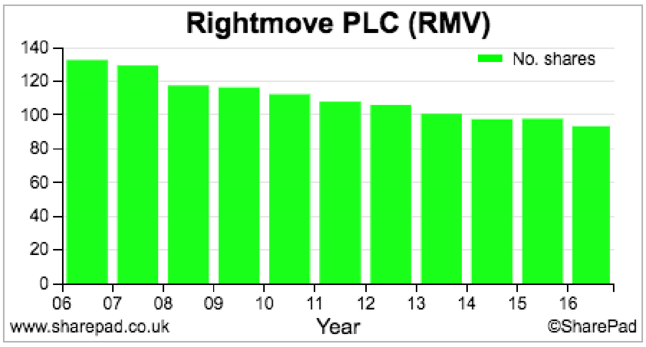
However, despite the company's great success in recent years, I am sceptical. The business model of high street estate agency with its high fees is under attack from lower fixed fee internet estate agents. The housing market is also slowing down with a lower number of transactions. Both these developments are bad for estate agency profits. Will they really be want to be paying more to use Rightmove?

In some respects, the agents have no choice. Rightmove has a lot of market power which means that switching away from it is unthinkable for many of them. That said, a slump in the housing market tends to see a lot of estate agents go out of business and there's little Rightmove can do to protect itself from this scenario.

Rightmove PLC (RMV)

← Prev Next →		2014	2015	2016	2017	2018	2019
Fiscal period ending		31/12/14	31/12/15	31/12/16	1/12/17	1/12/18	1/12/19
£ millions unless stated		Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS							
Turnover		167.0	192.1	220.0	241.9	265.3	289.7
EBIT		122.1	137.2	161.6	-	-	-
Norm Pre-tax		122.0	137.1	161.5	179.3	194.3	215.9
EBIT margin		73.1	71.4	73.5	-	-	-
EPS(p)		96.6	112.8	136.4	153.4	171.8	199.6
EPS % chg		▲32.8	▲16.8	▲20.9	▲12.5	▲12.0	▲16.2
DPS(p)		35.0	43.0	51.0	57.5	64.7	73.6
DPS % chg		▲25.0	▲22.9	▲18.6	▲12.7	▲12.5	▲13.8

City analysts remain bullish and continue to forecast double-digit earnings and dividend growth. This is likely to be boosted by the continued re-purchase of shares by the company.



So it seems that people expect Rightmove's stunning profitability to keep on growing.

I think Rightmove is a top quality business with the kind of financial performance I'd like to own a slice of. The shares have been a great long-term investment but have struggled to make much headway during the last 18 months.

Name	Close	Market Cap. (m)	fc PE	fc Yield	EPV ps (8%)	EPV yield (8%)	fc PEG
Rightmove PLC	£42.30	£3904.8	27.6	1.4	£17.206	41.6	2.3

Some caution on the housing market and the buying power of estate agents is warranted in my opinion. Given this backdrop, paying over 27 times forecast earnings is too rich for my style of investing which is backed up by an EPV yield which estimates that nearly 60% of the current share price is explained by future profits growth.

Share Discussion: BCA Marketplace (LSE:BCA)

BCA is best known for its car auctions business and its webuyanycar.com used car buying service. Its shares have performed reasonably well for investors since listing at the back end of 2014.

This week the company announced a strong set of results for the year to April 2017. A combination of new contracts and acquisitions saw underlying EPS increase by 30%. It looks as if the company is putting together a combination of businesses which can see it continue to grow its profits in the years ahead.

The car auction business remains the key profit driver of the group but its recently acquired businesses look well placed to complement it.

BCA is essentially a low profit margin business. It makes more money through selling more cars and services. The UK car auction margin is a little bit misleading. In 2015/16 this business had profit margins of 16.7% which was mainly due to auction fees.

BCA (£m)	Sales	EBIT	Margin
UK Car Auctions	756.7	57.8	7.64%
International Car Auctions	136.3	11.7	8.58%
Vehicle Buying	837.4	12.2	1.46%
Auto Services	321.2	7.4	2.30%
Central costs		-14.8	
Total	2051.6	74.3	3.62%

Last year the business changed. BCA is now taking the vehicle title before the auction which means the whole value of the cars sold is included in sales with the effect of reducing margins.

BCA is the market leader in this field and has been developing the services it offers in order to enhance its competitive edge. For example, it is offering warranty and finance services to buyers in order to gain extra business from them.

Webuyanycar.com has been in business for 10 years and bought its one millionth car last year. It provides a significant amount of volume for the car auction business but is a profit centre in its own right.

Last year it bought 220,000 cars (an increase of 12.8%) and made profits of £12.2m. Margins here are wafer thin at around 1.5% which seems like an awful lot of effort for not a lot of reward. One of the key requirements of a successful used car business is an ability to turn your stock into cash quickly in order to protect yourself from falling selling prices. Webuyanycar.com seems to be good at doing this as it typically sells the cars it has bought after 9-10 days.

BCA is trying to generate additional profits by growing its automotive services business. In recent years it has moved into areas such as refurbishment, vehicle preparation, storage and logistics. It has also invested in a network of new and used vehicle preparation centres.

This has put the company in a good position to win extra business from car manufacturers, car dealers and fleet companies by offering a portfolio of services to manage vehicles throughout their useful lives. Like the rest of BCA's businesses it will have to deal with a huge volume of cars in order to make a meaningful difference to overall profitability of the group.

I don't generally like investing in low margin businesses, but I think BCA could be a resilient business going forward. The used car market should see robust sales volumes over the next few years and I like the strategy of building up a portfolio of complementary businesses.

BCA Marketplace PLC (BCA)

Prev / Next	2014	2016	2017	2018	2019	2020
Fiscal period ending	31/12/14	3/4/16	2/4/17	1/4/18	1/4/19	1/4/20
£ millions unless stated	Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS						
Turnover	-	1,153.1	2,029.7	2,198.7	2,410.1	2,613.1
EBIT	(0.3)	46.9	74.3	-	-	-
Norm Pre-tax	(0.3)	34.5	50.2	109.2	123.6	133.3
EBIT margin	-	4.1	3.7	-	-	-
EPS(p)	(1.8)	3.6	4.0	10.7	12.1	13.1
EPS % chg	-	-	▲10.5	▲168.2	▲13.1	▲8.3
DPS(p)	-	6.0	6.8	8.0	8.9	9.2
DPS % chg	-	-	▲12.5	▲18.5	▲11.3	▲3.4

The shares aren't particularly cheap, but they may be of some interest to income seekers. The company's policy of paying out 75% of its profits in dividends should see some decent dividend growth and puts the shares on a prospective yield of 4%.

Name	Close	Market Cap. (m)	fc PE	fc Yield	EPV ps (8%)	EPV yield (8%)	fc PEG
BCA Marketplace PLC	199p	£1552.7	18.6	4.0	41.4p	35.6	1.4

Filter of the week: Quality shares

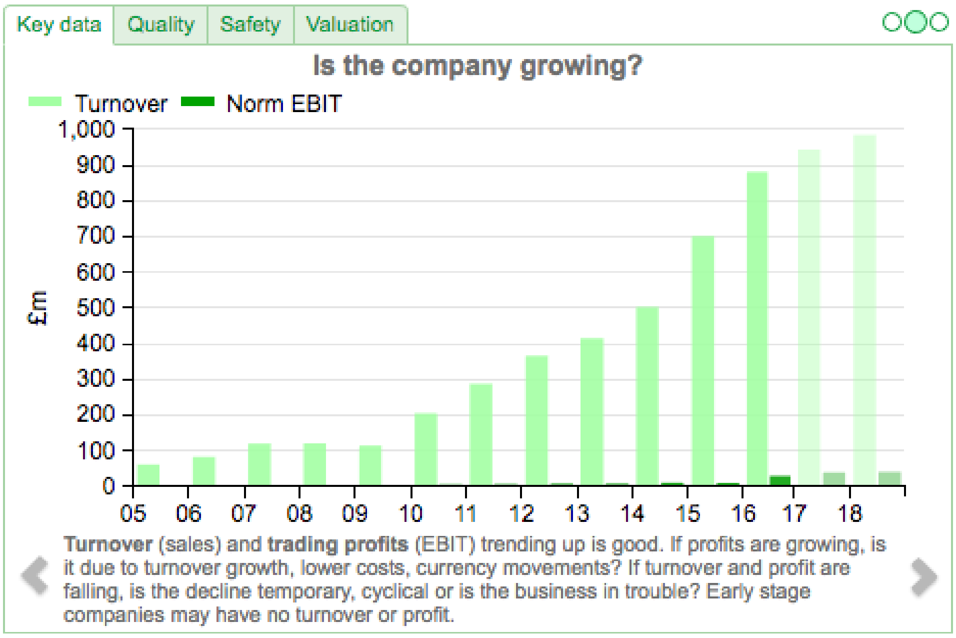
Last week I looked at a variant of my Quality shares filter from my new book and quickly put ITV through an analysis using SharePad's financial carousel. This week, I will take a quick look at Staffline Recruitment.

Phil Oakley's Quality Shares — Add criteria | i | Exit

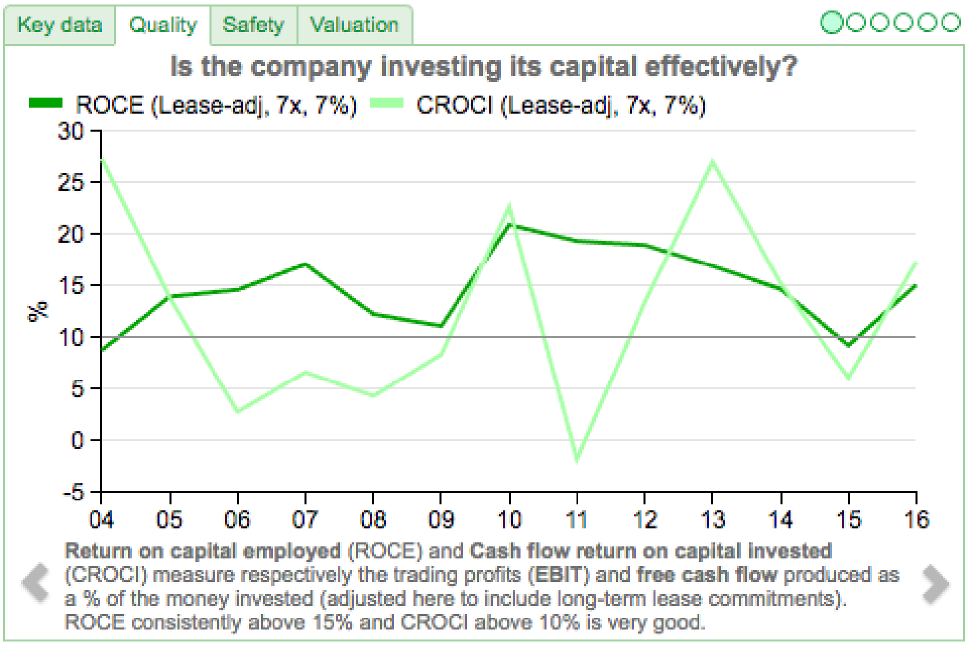
	Min	Max
Lease-adjusted ROCE (7x, 7%)	15	
Lease-adjusted ROCE 10y average (7x, 7%)	15	
Free cash conversion	80	
Free cash conversion 10y average	80	
Fxd charge cover	2	
Debt to EV (including pension deficit)		30
forecast Normalised EPS change %	5	
forecast PE		15

No.	TIDM	Name	Lease-adj ROCE (7x, 7%)	Lease-adj ROCE 10y avg (7x, 7%)	Free cash conversion	Free cash conversion 10y avg	Fxd charge cover	Debt to EV (inc. pen.def)	fc Norm EPS %chg	fc PE
1	TTR	32Red PLC	46.8	95.6	80.6	85.0	22.6	0.0	▲100.3	14.1
2	CLIG	City of London Investme...	47.1	65.0	94.7	98.6	17.7	0.0	▲54.1	11.3
3	ITV	ITV PLC	29.8	19.7	98.2	110.9	10.9	18.3	▲5.7	11.4
4	REC	Record PLC	20.9	55.3	97.9	93.2	23.2	0.0	▲17.2	14.1
5	RNWH	Renew Holdings PLC	26.1	20.9	118.2	106.5	4.0	5.6	▲43.2	13.2
6	SOM	Somero Enterprises Inc	47.1	18.5	86.4	97.3	58.6	0.5	▲16.1	13.4
7	STAF	Staffline Recruitment Gr...	15.1	15.6	141.8	96.1	2.5	13.9	▲27.9	11.4

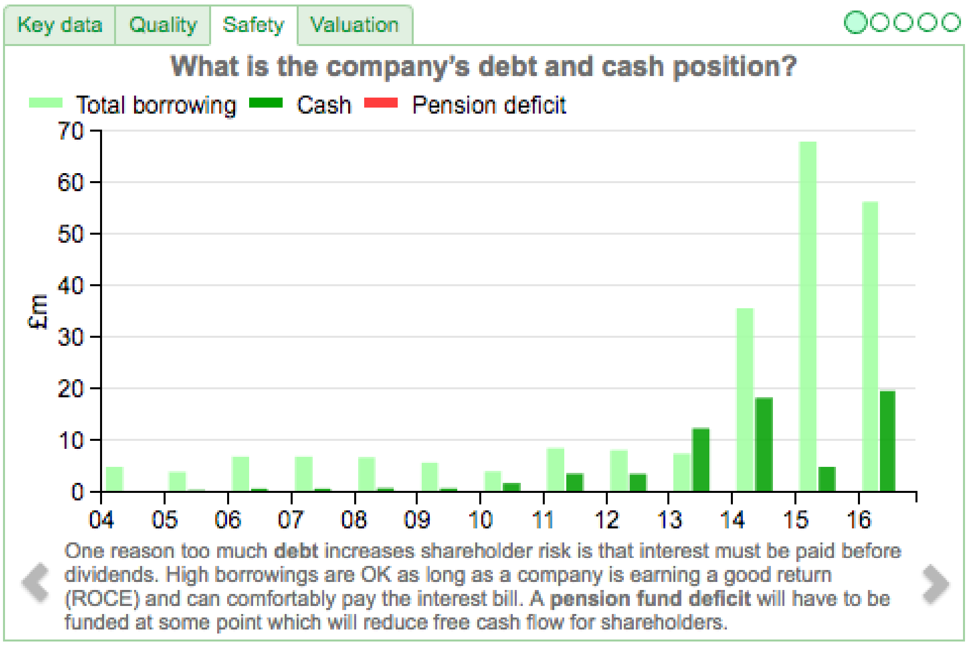
I'd just like to point out that this is an initial first glance at a company's financial performance and valuation. It is not a quick and easy shortcut to making a decision to buy a share. I would not invest in any share before I had taken the time to understand the company behind it, what it does and what its future prospects might be. I strongly advise that you do the same.



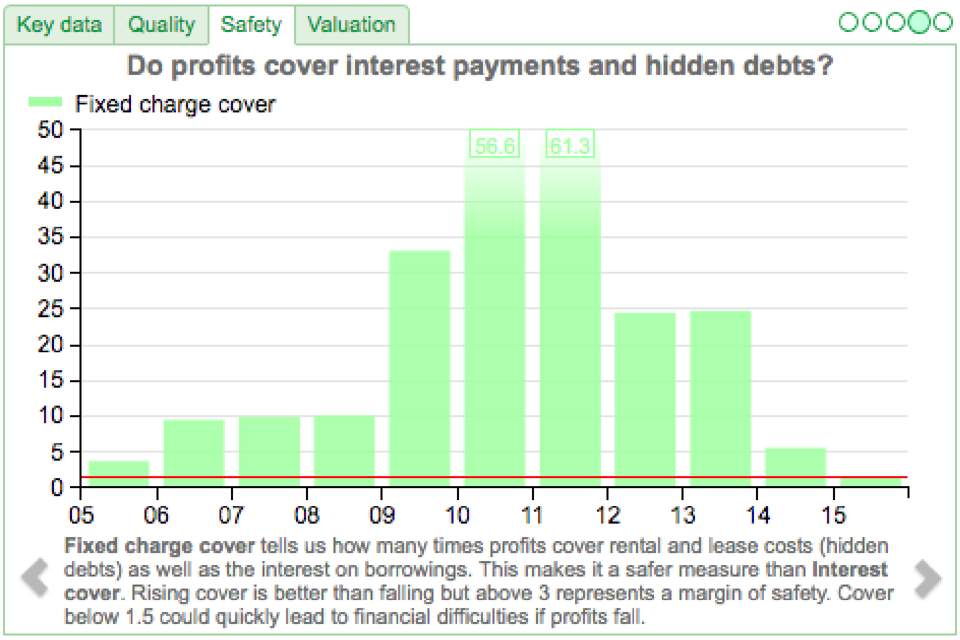
First and foremost, I want to see if the company has a track record of growth and is expected to continue growing. Staffline has and is, but the small size of the profit bars relative to the turnover ones quickly tell me that this is a low profit margin business. I don't like low profit margin businesses in general as they have the potential to become loss-making if trading takes a turn for the worse. This first chart would already lead me to think about rejecting this share.



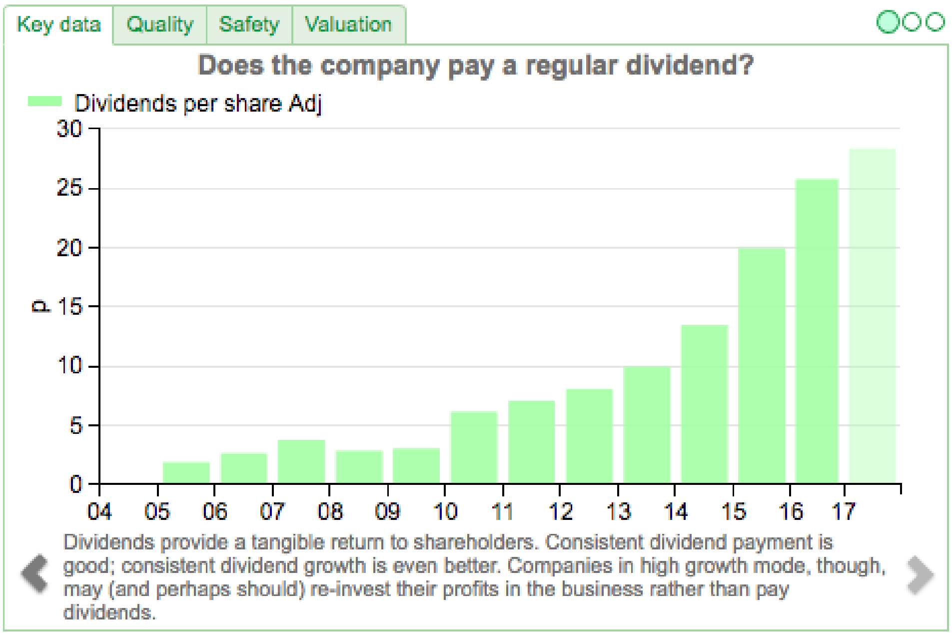
ROCE has been reasonable but there has been no consistency. It has spiked up recently but had been on a downwards trend before then. I like to see consistent rather than volatile ROCE.



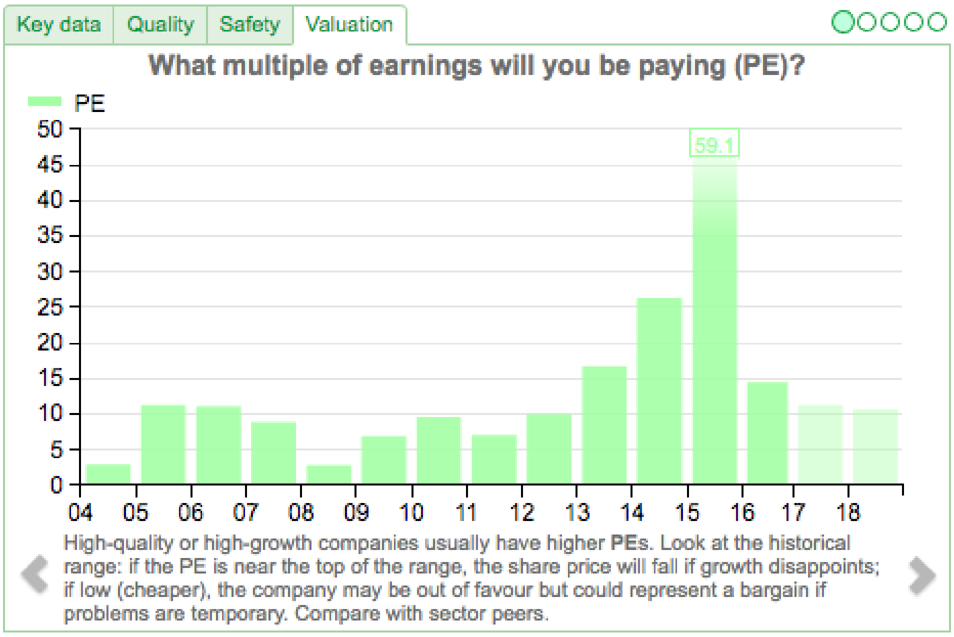
The company has debt but it has been falling and cash balances have been rising. This is reassuring.



Fixed charge cover has been falling sharply and is close to the danger line. This along with its low profit margins identified earlier is a possible cause for concern.



Dividends have been increasing nicely and are expected to keep on doing so. Note the dividend cut in 2008 during the last recession. Is this a sign that the company's profits are highly correlated with the economy and could take a plunge and result in a dividend cut again in the future?



The shares trade on a forward PE of around 10. The chart is telling us that historically this has not been a high PE share. Given this PE history, the shares might not be that cheap. A low PE may also be a sign that the company is not perceived to be a very high quality business.