Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

28th July 2017

Market overview

Name	Price	%chg 1w	%chg 1m	%chg 2/1/17	%chg 1y	1 y high	1 y low	Date 1 y high	Date 1 y low
FTSE 100	7449.8	▲0.254	▲0.0403	▲4.3	▲10.8	7547.63	6634.4	2/6/17	3/8/16
FTSE 250	19772.1	▲0.397	▲0.445	▲9.38	▲15.8	20024.9	16997.1	26/5/17	3/8/16
FTSE SmallCap	5668.47	▲0.313	▲0.817	▲10.2	▲20.6	5685.47	4698.37	24/7/17	26/7/16
FTSE AIM 100	4961.48	▲2.7	▲2.15	▲21.9	▲39.4	4969.33	3560.43	2/6/17	26/7/16
S&P 500	2479.09	▲0.213	▲1.64	▲10.7	▲14.3	2479.09	2085.18	26/7/17	4/11/16
UK Treasury 10 Year Par Yield	1.19	0	▲14.4	▼-6.3	▲28	1.54	0.61	26/1/17	12/8/16
Brent Oil Spot $	$50.755	▲2.33	▲10.5	▼-10.6	▲13.8	$56.965	$41.965	29/12/16	2/8/16
Gold Spot $ per oz	$1248.05	▲0.533	▲0.391	▲8.48	▼-5.39	$1363.18	$1128…	2/8/16	15/12/16
GBP/USD - US Dollar per Bri…	1.30585	▲0.217	▲2.63	▲6.33	▼-0.68	1.34149	1.20401	6/9/16	16/1/17
GBP/EUR - Euros per British…	1.12235	▼-0.703	▼-1.36	▼-4.43	▼-6.21	1.1972	1.1066	18/4/17	13/10/16

People should not worry about the levels of the stock market in general. This should only be an issue if you are investing in index tracker funds. For active investors, individual share valuations are what matters.

In all types of markets it is usually possible to find attractively valued shares. During the dot-com bubble the valuations of supposedly boring old economy stock could be snapped up for very cheap valuations and stonkingly good dividend yields.

At the moment the values attached to high quality companies and fast growing ones are too high in my opinion. Growth companies - such as Fevertree discussed below - have almost become a buy at any price. Valuations are of secondary importance as long as profit forecasts are being beaten and analysts are upgrading future ones. In my experience this does not last and can - and often does - end painfully.

That's not to say that pockets of value do not exist. I like the look of quite a few high yielding dividend shares at the moment. You won't get rich on them, but anyone looking to build a half decent income portfolio has some reasonable shares to choose from in my view.

Take a look at the SharePad filter on the right. It shows a list of shares with a forecast yield of more than 4%; forecast dividend cover of more than 1.2 times; dividend growth of at least 3% (inflation) and consecutive annual dividend payments for the last 20 years.

Filtered FTSE All-Share sorted by forecast Yield (23 matches)

QuickFilter — Add criteria | Keep | Exit

- forecast Yield — Min: 4 — Max:
- forecast Dividend cover — Min: 1.2 — Max:
- forecast Dividend per share change % adjusted for splits & cons… — Min: 3 — Max:
- Dividend per share years of payments adjusted for splits & cons… — Min: 20 — Max:

No.	TIDM	Name	fc Yield	fc Dividend cover	fc Dividend per share %chg Adj	Dividend per share yrs pay Adj
1	CNCT	Connect Group PLC	8.9	1.7	▲3.2	24
2	GFRD	Galliford Try PLC	7.1	1.7	▲14.6	24
3	RIO	Rio Tinto PLC	7.0	1.6	▲80.9	24
4	SGC	Stagecoach Group PLC	7.0	1.8	▲4.2	24
5	SVS	Savills PLC	6.9	2.2	▲113.8	25
6	MARS	Marston's PLC	6.5	1.9	▲4.1	24
7	SSE	SSE PLC	6.5	1.2	▲3.2	25
8	UAI	U and I Group PLC	6.4	1.5	▲101.7	23
9	GOG	Go-Ahead Group (The) …	5.8	2.1	▲6.5	22
10	LGEN	Legal & General Group …	5.8	1.5	▲6.6	24
11	SUS	S & U PLC	5.4	1.9	▲14.3	25
12	KIE	Kier Group PLC	5.2	1.6	▲3.3	20
13	IMB	Imperial Brands PLC	5.0	1.6	▲9.9	20
14	BLND	British Land Co PLC	4.9	1.2	▲3.1	24
15	AV.	Aviva PLC	4.9	1.5	▲12.4	24
16	CTR	Charles Taylor PLC	4.9	2.0	▲4.8	21
17	AMFW	Amec Foster Wheeler PLC	4.9	2.3	▲191.9	24
18	PNN	Pennon Group PLC	4.8	1.2	▲7.6	25
19	HMSO	Hammerson PLC	4.4	1.2	▲6.7	24
20	HAS	Hays PLC	4.3	1.3	▲151.7	24
21	HEAD	Headlam Group PLC	4.3	1.6	▲12.6	24
22	BRW	Brewin Dolphin Holdings…	4.0	1.3	▲10.0	23
23	LAND	Land Securities Group P…	4.0	1.3	▲4.0	24

Granted not all of these shares will be everyone's cup of tea and there will probably be a few dividend traps. However, there are a few companies in there that could fit nicely in a well diversified income portfolio.

Top 10 FTSE All-Share winners

No.	TIDM	Name	%chg 1w
1	MAB	Mitchells & Butlers PLC	▲16.5
2	INDV	Indivior PLC	▲16.5
3	CHOO	Jimmy Choo PLC	▲16.5
4	HNT	Huntsworth PLC	▲15.5
5	GAW	Games Workshop Group PLC	▲12.8
6	AAL	Anglo American PLC	▲12.1
7	STHR	SThree PLC	▲10.6
8	TLW	Tullow Oil PLC	▲10.6
9	SPD	Sports Direct International PLC	▲10.1
10	KAZ	KAZ Minerals PLC	▲9.95

Top 10 FTSE All-Share losers

No.	TIDM	Name	%chg 1w
1	ACA	Acacia Mining PLC	▼-36.4
2	AZN	AstraZeneca PLC	▼-15.6
3	PFG	Provident Financial PLC	▼-12.6
4	CWD	Countrywide PLC	▼-11.5
5	LMI	Lonmin PLC	▼-10.7
6	HSS	HSS Hire Group PLC	▼-9.73
7	PDL	Petra Diamonds Ltd	▼-8.76
8	DIA	Dialight PLC	▼-7.94
9	CLLN	Carillion PLC	▼-7.4
10	VSVS	Vesuvius PLC	▼-7.33

Friday 27th (today!) is your last chance to vote for us in the Investors Chronicle awards. I do hope you will - it will only take a minute. You could make the difference as these votes can be tight and you might win £1,000. Thanks.

Category: Investment Software and Data Tools
Select: ShareScope/SharePad

Category: Award for Services to Private Investors
Nominate: Phil Oakley

Click here to vote.

Share Discussion: Provident Financial (LSE:PFG)

The financial crisis of 2007-08 was essentially caused by banks lending money to people who couldn't afford to pay them back. In fact it was worse than that, many couldn't afford to pay the interest on the loans.

Yet that didn't stop bankers packaging up these risky loans into exotic high yielding bonds to sell to their clients. When the underlying loans went bad it wasn't very long before the word subprime was heard in households across the world.

I must admit I've always struggled to understand the subprime loan industry. Surely charging sky high interest rates on loans to people who have poor credit histories has a good chance of ending badly?

Subprime lending is how Provident Financial makes its money. Its business is split into four main parts:

- A consumer credit division (CCD) - loans to individuals with bad credit records.
- Vanquis - a credit card business for people with bad credit records.
- Moneybarn - loans for cars and vans for people with bad credit records.
- Satsuma loans - short term loans for sums of between £100 and £1000.

Provident has recently got itself into a bit of a mess. It has changed the way its consumer credit business operates by replacing self employed sales people with its own employees.

This has apparently created chaos within the business leading lots of people to leave and a problem with collecting the money customers owed it. This led to a profits warning earlier in the year which inflicted significant damage to the company's share price.

This week's interim results from the company were a bit of a mess and littered with exceptional items and impairments. The adjusted pre-tax profit and EPS was down by 22%. The actual fall in reported pre-tax profit was 45.6% from £165.4m to £90m.

As always, the devil is in the detail when it comes to company results. With Provident Financial it is particularly revealing. Let's take a closer look.

Lending businesses are very simple. They borrow money from savers or use money raised from investors and lend it out to borrowers. If the interest received from borrowers is more than the interest paid to savers and investors then the lender will make a gross profit.

8. Amounts receivable from customers

	30 June 2017 GBPm	31 December 2016 GBPm	30 June 2016 GBPm
Vanquis Bank	1,476.8	1,424.7	1,280.8
CCD	501.4	584.8	510.6
Moneybarn	343.8	297.3	264.4
Total group	2,322.0	2,306.8	2,055.8
Analysed as:			
– due in more than one year	323.3	307.6	259.4
– due within one year	1,998.7	1,999.2	1,796.4
Total group	2,322.0	2,306.8	2,055.8

Then the costs of running the lending business such as wages and overheads have to be taken away. There's also another potential big cost as well - loans that go bad or default. These are known as impairments.

Revenue growth can be achieved by lending out more money and/or charging higher interest rates. As you can see, Provident has lent just over £2.3bn to its customers compared with £2.05bn a year ago. Vanquis, the credit card business is by far the biggest lender in the company.

Loan Impairments

	Six months ended 30 June 2017 GBPm	2016 GBPm
Vanquis Bank	93.1	80.4
CCD	115.5	70.4
Moneybarn	13.3	7.0
Total group	221.9	157.8

As a subprime lender it should not come as a surprise that some of Provident's customers might not pay their loan back and default. What is concerning is that the number of loans being impaired seems to be rising sharply.

All businesses have seen an increase in impairments. A simple calculation shows that the CCD business had nearly 20% of its outstanding loans impaired during the six months to the end of June.

£m	Opening loan balance	Impairment	% of loan balance
Vanquis Bank	1424.7	93.1	6.53%
CCD	584.8	115.5	19.75%
Moneybarn	297.3	13.3	4.47%
Total	2306.8	221.9	9.62%

Taking a closer look at the annualised revenue yield of each division you can see how profitable subprime lending can be. But you can also see the damage that impairments do to profits.

Vanquis Bank

	Six months ended 30 June 2017 GBPm	2016 GBPm	Change %
Customer numbers ('000)	1,645	1,448	13.6
Period-end receivables	1,476.8	1,280.8	15.3
Average receivables	1,440.6	1,252.1	15.1
Revenue	311.1	280.1	11.1
Impairment	(93.1)	(80.4)	(15.8)
Revenue less impairment	218.0	199.7	9.2
Annualised revenue yield(1)	43.9%	45.5%	
Annualised risk-adjusted margin(2)	31.4%	32.4%	
Costs	(98.9)	(79.6)	(24.2)
Interest	(19.0)	(20.3)	6.4
Profit before tax(3)	100.1	99.8	0.3
Annualised return on assets(4,5)	12.8%	14.2%	

(1) Revenue as a percentage of average receivables for the 12 months ended 30 June.

Provident's credit card business grew its customers and average receivables by a healthy amount but profits barely budged due to bad loans. Even with this the return on assets was 12.8% which is very profitable for a lender.

CCD

	Six months ended 30 June 2017 GBPm	2016 GBPm	Change %
Customer numbers ('000)	801	875	(8.5)
Period-end receivables	501.4	510.6	(1.8)
Average receivables	515.8	497.9	3.6
Revenue	258.4	255.2	1.3
Impairment	(115.5)	(70.4)	(64.1)
Revenue less impairment	142.9	184.8	(22.7)
Annualised revenue yield(1)	100.9%	102.4%	
Annualised risk-adjusted margin(2)	69.0%	81.1%	
Costs	(125.2)	(127.2)	1.6
Interest	(11.4)	(14.1)	19.1
Profit before tax(3)	6.3	43.5	(85.5)
Annualised return on assets(4)	15.8%	22.3%	

(1) Revenue as a percentage of average receivables for the 12 months ended 30 June.

Profits at CCD were almost wiped out by impairments despite charging customers rates of interest of more than 100%

Moneybarn

	Six months ended 30 June 2017 GBPm	2016 GBPm	Change %
Customer numbers ('000)	46	36	27.8
Period-end receivables	343.8	264.4	30.0
Average receivables	325.1	245.9	32.2
Revenue	49.9	36.3	37.5
Impairment	(13.3)	(7.0)	(90.0)
Revenue less impairment	36.6	29.3	24.9
Annualised revenue yield(1)	30.8%	29.6%	
Annualised risk-adjusted margin(2)	23.4%	24.1%	
Costs	(12.3)	(9.8)	(25.5)
Interest	(7.4)	(5.9)	(25.4)
Profit before tax(3)	16.9	13.6	24.3
Annualised return on assets(4)	12.8%	12.9%	

(1) Revenue as a percentage of average receivables for the 12 months ended 30 June.

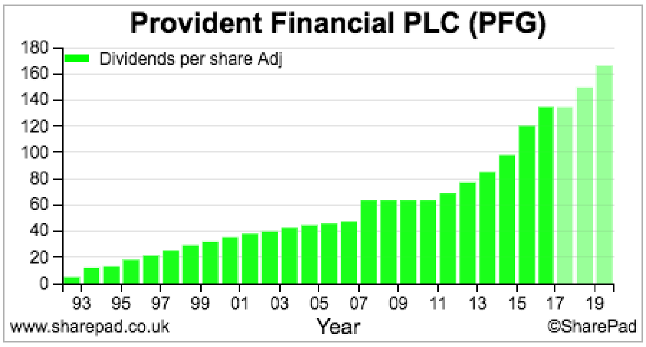
The car and van lending business saw growth in profits but this growth was less than the growth in average receivables due to a near doubling of loan impairments.

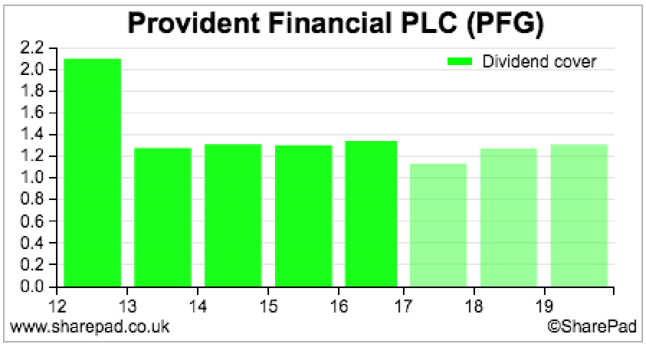
The level of impairments as a percentage of revenue is a staggeringly large number and is going up.

This is a clear sign that the quality of earnings at Provident has deteriorated rapidly. With the Bank of England saying that it is becoming concerned about levels of consumer credit, it is not unreasonable to think that Provident's earnings are at risk of further damage from rising bad debts.

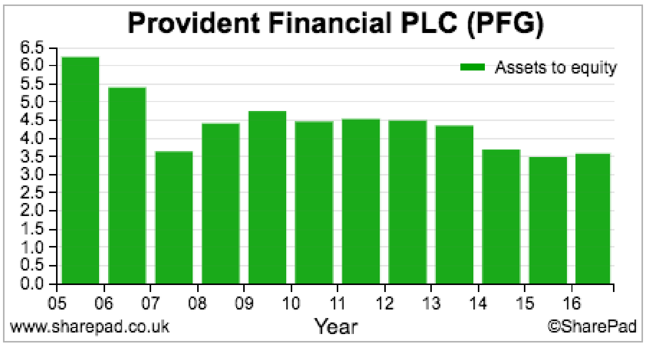
This then leads us into the question of how sustainable Provident's dividend payment is. The interim dividend was maintained at 43.2p per share with analysts now expecting little growth for the full year. I would take the expectations of dividend growth resuming in 2018 with a big pinch of salt.

Revenue(£m)	H1 17	H1 16
Vanquis Bank	311.1	280.1
CCD	258.4	255.2
Moneybarn	49.9	36.3
Total	619.4	571.6
Impairments (£m)		
Vanquis Bank	93.1	80.4
CCD	115.5	70.4
Moneybarn	13.3	7
Total	221.9	157.8
Impairments as % of revenue		
Vanquis Bank	29.93%	28.70%
CCD	44.70%	27.59%
Moneybarn	26.65%	19.28%
Total	35.82%	27.61%





Dividend cover is thin and looks likely to stay that way. I always become wary when a management team maintains the dividend on the back of bad results because it can often be the beginning of a road to a dividend cut. It would not surprise me if this scenario came to pass.



Whilst I am cautious on Provident's earnings and dividends I don't think the company is in any imminent danger of getting into financial difficulties. Its leverage as measured by its assets to equity ratio was 3.9 times at the end of June against a covenant of 5 times.

Provident remains much more profitable than a high street bank. It has much higher returns on equity with much lower leverage. But you could argue that this should be expected given the high risk nature of its lending business.

Name	Close	fc PE	fc Yield	fc Dividend cover	TTM price to NAV	TTM ROE	TTM Assets to equity
Provident Financial PLC	£21.63	14.2	6.2	1.1	4.0	35.2	3.6

The forecast dividend yield looks tempting but my view is that this is reflecting a growing concern that the dividend might be cut in the future. This makes Provident a share for brave and adventurous investors.

Share Discussion: Fevertree (LSE:FEVR)

It seems that there is nothing that will stop the rampant growth in Fevertree's share price - for now. The company has consistently beaten analysts forecasts which has led to regular major upgrades in profit forecasts which continue to fuel the upwards trajectory in its share price.

Demand for Fevertree's premium mixers has been growing so rapidly that analysts forecasts have been way off. Having been an analyst in the City in the past it would also not surprise me if there has been a clever managing of expectations by Fevertree management in order to keep a constant stream of upgrades. To be fair to them though, it is also entirely possible that even they have been taken aback by the strength in demand for the company's products.

Half year results to the end of June 2017 were nothing short of sensational. Sales were up by 77% and diluted EPS was up by 106% to 16.2p. The interim dividend was almost doubled to 3.01p.

Management said that full year profits would be "materially ahead of expectations" which triggered another surge in the share price.

The UK remains the star performer. Fevertree has been accountable for virtually all the growth in the UK mixer drinks market during the last year and now has a 30% share of the market. Its 150ml cans are proving to be a hit and have driven significant growth in the retail trade. This is very obvious to anyone walking around a supermarket or convenience store as Fevertree seems to be available almost everywhere in my experience.

Revenue by territory

	Half year ended 30 June 2017 GBPm	Half year ended 30 June 2016 GBPm	Movement %	Share of revenue %
UK	33.6	15.8	113%	47%
Continental Europe	22.0	13.4	64%	31%
USA	13.2	9.2	43%	18%
RoW	3.1	2.2	45%	4%
Total	71.9	40.6	77%	100%

Back in 2014, Fevertree management were talking about targeting just over 16% market share of the UK mixer drinks market. With it now having 30% it does beg the question how much bigger it can get in the UK? It is not unreasonable to assume that these stellar growth rates will have to slow down - perhaps by quite a lot.

Europe is doing well and further growth here in the future will be helped by a new bottling partner in Spain to supply southern European markets. It is interesting to note that the company highlighted that it had bumper sales in June and that many customers will enter the second half of 2017 with large amounts of stock. This means that they will probably order less in the second half of the year which will moderate growth rates.

The USA and the rest of the world remain small contributors to revenue but have also posted good rates of growth.

From a financial performance perspective the increase in EBIT margins to 33.5% from 29.3% is very encouraging. That said, these margins were flattered by the phasing of operating expenses which will increase from 20% of revenues in the first half of the year to around 22% in the second half.

The company remains in rude financial health with net cash balances of £40m compared with just over £18m a year ago.

More experienced investors will always have a thought in the back of their minds that when they come across a company like Fevertree which is growing so rapidly that it might just be too good to be true. I have to say that there's little - if any - evidence of anything untoward going on.

Operating profits are pretty much being fully converted into operating cash flow. The only slightly potential red flag is the 119% increase in the cash outflow from increased trade debtors compared with a 77% increase in sales. This could be partly explained by the bumper sales into Europe in

June which could have caused a jump up in the ratio of outstanding trade debtors in relation to sales.

The key issue with this company remains its growth rate and the very high valuation of its shares.

The company has been very open that it is running up against very strong growth numbers - particularly in relation to Christmas - during the second half of the year. That said, its tonic water brands continue to grow strongly with further potential growth to come from lemonade and a new cola product.

Investec, the company's house broker, is forecasting sales of £150m and pre-tax profits of £49m for the full year. Based on my spreadsheet analysis below this seems to be implying a significant slowdown in sales growth to less than 30% during the second half of the year.

FEVR	H1 16	H2 16	FY 16	H1 17	H2 2017F
Revenue	40,582,364	61,654,990	102,237,354	71,941,208	79,534,937
% ch				**77.3%**	**29.0%**
Gross profit	**22,254,188**	**34,167,903**	**56,422,091**	**39,222,514**	**43,346,541**
Gross margin	54.8%	55.4%	55.2%	54.5%	54.5%
Admin expenses	-9,813,181	-10,769,921	-20,583,102	-14,072,262	-17,497,686
% of sales	24.2%	17.5%	20.1%	19.6%	22.0%
EBITDA	**12,441,007**	**23,397,982**	**35,838,989**	**25,150,252**	**25,848,855**
Depreciation	-105,288	-144,030	-249,318	-182,857	-190,000
Amortisation	-360,000	-360,000	-720,000	-360,000	-360,000
Share based payments	-104,602	-392,692	-497,294	-540,581	0
Operating profit	**11,871,117**	**22,501,260**	**34,372,377**	**24,066,814**	**25,298,855**
Operating margin	**29.3%**	**36.5%**	**33.6%**	**33.5%**	**31.8%**
Finance income	37,299	42,522	79,821	35,845	36,000
Finance costs	-111,794	-38,524	-150,318	-27,027	-27,027
Profit before tax	**11,796,622**	**22,505,258**	**34,301,880**	**24,075,632**	**25,307,828**
Taxation	-2,366,492	-4,437,730	-6,804,222	-4,631,859	-4,869,226
Tax rate	20.1%	19.7%	19.8%	19.2%	19.2%
Profit after tax	**9,430,130**	**18,067,528**	**27,497,658**	**19,443,773**	**20,438,602**
Weighted average shares	116,179,008		116,034,569	116,264,435	116,264,435
Diluted EPS(p)	**8.12**	**15.58**	**23.70**	**16.72**	**17.58**

Should we believe this?

Even though the company is going to come up against tough growth comparatives, and taking into account the surge in sales in Europe at the end of June that won't be repeated, this could be conservative. Given the company's track record of beating forecasts it would not surprise me if the actual pre-tax profit is in the range of £53m to £55m.

So where does that leave the valuation of the shares?

In a word, expensive. If Investec's forecast EPS of around 34.3p is accurate the shares trade on a forward PE of 63.6 times. If Pretax profit comes in around £55m which implies EPS of around 38.2p then the PE comes down to 57.1 times.

I really struggle with this valuation and find it difficult to believe that anyone buying the shares at these levels can do so with any margin of safety.

Bigger rival Britvic may be plodding along but is Fevertree really worth nearly five times Britvic's earnings multiple?

Comparing 2 instruments (max. 20)

	FEVR Beverages	BVIC Beverages ①
HEADLINE		
Market cap	£2,371.7	£1,855.3
Enterprise value	£2,344.8 m	£2,446.6 m
Turnover	£102.2 m	£1,431.3 m
EPS	23.5p	48.9p
CONFIDENCE		
VALUATION		
Market cap	£2,371.7	£1,855.3
fc PE	-	14.0 ★
EV / EBIT	68.2	12.8 ★
Price to turnover	23.4	1.3 ★
FORECAST GROWTH %		
Turnover	-	6.8% ★
EBIT	-	-6.2% ★
Pre-tax profit	-	1.8% ★
Normalised EPS	-	2.9% ★
SAFETY		
Fixed charge cover	96.4 ★	5.7
FCF conversion	72.5% ★	-7.5%
Gearing	6.8% ★	278%
Beneish M-score	-1.50	-2.25 ★
DIVIDENDS		
Dividend yield	0.3%	3.5% ★
FCF dividend cover	2.7 ★	-
Dividend cover	3.8 ★	2.0
Years of growth	2	4 ★
QUALITY		
ROCE	40.1% ★	19.2%
EBIT margin	33.6% ★	13.3%
Capital turnover	1.2	1.4 ★
CROCI	23.1% ★	1.1%

Share Discussion: Domino's Pizza (LSE:DOM)

Just over a month ago (23rd June 2017) in my weekly roundup I asked the question as to whether Domino's Pizza share price was implying an imminent profit warning. Not so as it has turned out but this week's interim results show that the company is facing an increasingly challenging outlook.

At first glance the results read fine with adjusted EPS up by 9.9% and a dividend increase of 7.1%. However, it seems that some of my concerns remain valid.

Domino's is a business that I like due to its high profit margins, high ROCE and great free cash flow. With reasonable rates of growth and a decent valuation it is a share that I would happily tuck away in my portfolio.

However, I have two big concerns about the business:

Firstly, I do not like the strategy of splitting territories in the UK. This is when a new Domino's store opens close to an existing one. It brings some benefits in terms of widening the potential sales area and improving the ability to serve customers faster but it comes with one big drawback - the risk of cannibalising sales. This is when the new store takes away sales from the existing one.

This is what seems to be happening. Like-for-like sales for the first half of 2017 increased by 2.4%. This was a marked slowdown from the 13% growth of a year ago but some sort of easing should have been expected. New and immature stores (less than a year old) contributed 6.7% sales growth but this was offset by a 2.3% fall in sales from splitting territories. Essentially, the like-for-like sales growth was wiped out by sales cannibalisation.

I fear that this effect is only about to get worse. 40 new stores opened during the first half - of which 24 were split territories - with another 50 expected during the second half. This can only worsen the cannibalisation effect in my view. I also see the potential for it to upset existing franchisees who may see their sales and profits fall if another store opens up nearby - unless they are opening it of course.

Sales cannibalisation is the major risk of any store roll out strategy. This has ended badly for many retailers such as Restaurant Group as like-for-like sales start to fall which begins to have a big impact on profits. The risk of this happening to Domino's Pizza is increasing in my view.

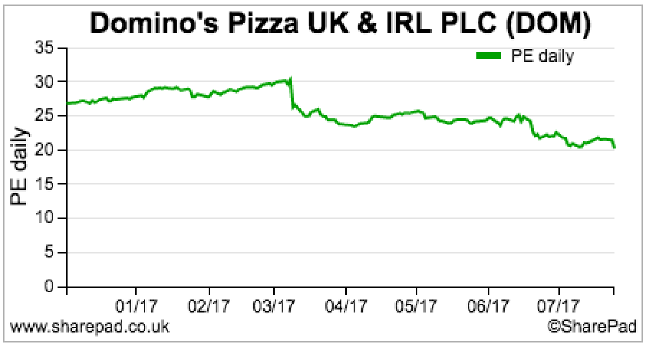
My second concern is that Domino's products - and takeaway pizzas in general - are too expensive and are at odds with a weakening consumer spending environment. The results release reports that the pizza market is currently growing at around 4% compared with 11% for the takeaway market in general. Although Domino's is taking market share it has highlighted that discretionary spending on pizzas is under pressure.

Domino's EBIT margins are high at 23%. These do not come from selling pizza directly but from royalty payments paid by franchisees. Yet the gross margins on takeaway pizza are massive. A large margherita from Domino's costs £14 compared to a similar sized stuffed crust version for £4 in my local Sainsbury's. The latter looks an increasingly viable option for cash strapped households in my view.

The company's overseas businesses are not really going to move the profits of the company. The value and growth are largely tied up in the UK business.

Domino's Pizza UK & IRL PLC (DOM)

← Prev Next →	2014	2015	2016	2017	2018	2019
Fiscal period ending	28/12/14	27/12/15	25/12/16	1/12/17	1/12/18	1/12/19
£ millions unless stated	Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS						
Turnover	288.7	316.8	360.6	468.3	543.8	524.4
EBIT	62.4	73.6	82.9	91.8	100.8	108.7
Norm Pre-tax	62.2	73.6	82.4	94.1	104.2	112.1
EBIT margin	21.6	23.2	23.0	19.6	18.5	20.7
EPS(p)	9.9	11.9	13.0	15.1	16.6	18.0
EPS % chg	▲19.0	▲20.0	▲10.0	▲15.9	▲9.9	▲8.4
DPS(p)	5.8	6.9	8.0	8.6	9.2	10.7
DPS % chg	▲10.1	▲18.6	▲15.7	▲7.5	▲7.0	▲16.3
Dividend cover	1.7	1.7	1.6	1.8	1.8	1.7



Analysts still expect reasonable rates of EPS growth. At 270p, the shares trade on a forecast PE of 17.9 times whilst offering a yield of 3.2%. That's better value than was on offer a few months ago but with forecast risk still on the downside, I'd struggle to describe this valuation as an attractive entry point.

An article in Wednesday's (26th July 2017) Times newspaper quoted an analyst suggesting that Domino's might be a takeover target for the Australian franchisee, Domino's Pizza Enterprises. The argument made was that this company traded on a much higher multiple than Domino's UK and therefore that a takeover would be EPS enhancing.

I've always found this argument rather weak and cosmetic to be honest. Just because one business is cheaper than another doesn't necessarily make it a good purchase but stranger things have happened.