

Phil Oakley's Weekly Roundup



Exclusively for SharePad and ShareScope users

6th October 2017

Market overview

No.	Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
1	FTSE 100	7507.99	▲2.53	▲1.83	▲6.75	7547.63	6693.26	2/6/17	4/11/16
2	FTSE 250	20088.5	▲2.08	▲1.83	▲10.4	20088.5	17271.2	5/10/17	4/11/16
3	FTSE SmallCap	5796.22	▲1.9	▲1.77	▲15.3	5796.22	4862.64	5/10/17	11/11/16
4	FTSE AIM 100	5203.52	▲2.43	▲0.886	▲30.8	5203.52	3817.03	5/10/17	4/11/16
5	FTSE All-Share	4118.56	▲2.43	▲1.83	▲7.63	4130.15	3641.91	26/5/17	4/11/16
6	S&P 500	2548.67	▲1.54	▲3.7	▲18	2548.67	2085.18	5/10/17	4/11/16
7	Brent Oil Spot \$	\$57.1655	▼-0.139	▲7.48	▲10.8	\$59.135	\$44.565	25/9/17	11/11/16
8	Gold Spot \$ per oz	\$1272.90	▼-1.1	▼-5.13	▲0.278	\$1349.10	\$1128.22	7/9/17	15/12/16
9	GBP/USD - US Dollar per British Pound	1.31332	▼-2.21	▲0.711	▲2.98	1.3591	1.20401	15/9/17	16/1/17
10	GBP/EUR - Euros per British Pound	1.122	▼-1.57	▲2.6	▼-1.41	1.1972	1.0795	18/4/17	29/8/17

Top 10 FTSE All-Share winners

No.	TIDM	Name	%chg 1w
1	ALM	Allied Minds PLC	▲27.7
2	KAZ	KAZ Minerals PLC	▲17.2
3	AAL	Anglo American PLC	▲12.9
4	ECM	Electrocomponents PLC	▲10.2
5	WIZZ	Wizz Air Holding PLC	▲10
6	COA	Coats Group PLC	▲9.74
7	GLEN	Glencore PLC	▲9.27
8	CWD	Countrywide PLC	▲9.26
9	KLR	Keller Group PLC	▲9.23
10	FCSS	Fidelity China Special Situation...	▲8.93

Top 10 FTSE All-Share losers

No.	TIDM	Name	%chg 1w
1	CLLN	Carillion PLC	▼-29.2
2	PURE	PureCircle Ltd	▼-10.5
3	888	888 Holdings PLC	▼-5.8
4	DEB	Debenhams PLC	▼-5.58
5	AA	AA Ltd	▼-5.47
6	AGK	Aggreko PLC	▼-5.31
7	NANO	Nanoco Group PLC	▼-5.17
8	OSB	OneSavings Bank PLC	▼-5.16
9	CNA	Centrica PLC	▼-5.08
10	LOOK	Lookers PLC	▼-5.03

Share Discussion: James Halstead (LSE:JHD)

I'll be very forthright from the start. James Halstead is the kind of business that I would like to own a slice of - and I have done so in the past. There are many reasons for this.

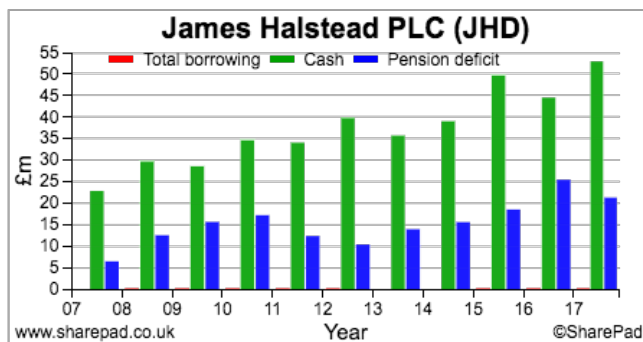
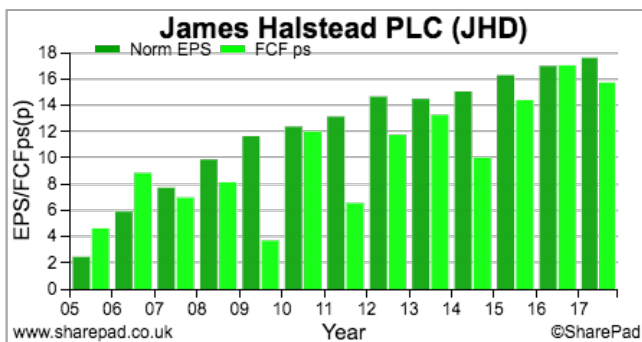
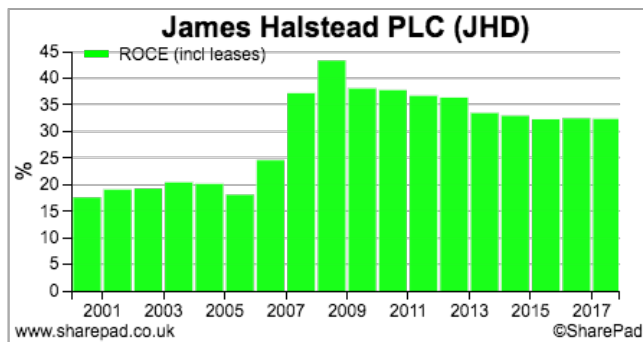
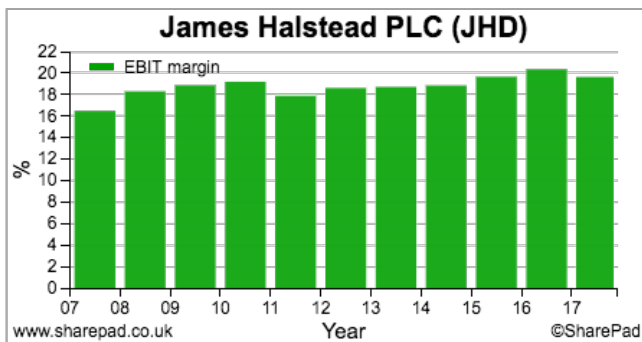
First and foremost it is a very simple business which is fairly easy to understand. The company makes high quality flooring and sells it to a broad range of customers all over the world. Because flooring does not last forever there is lots of repeat business in the future. This gives the company's profits a degree of stability and predictability which is always welcome.

Secondly, I like the honest and candid way in which the management communicates with investors. It tells you the good and the bad things that are going on within the business in a language that people can understand.

Its accounting is very clean and it does not abuse the use of things such as exceptional items. For example, redundancy

costs are taken on the chin and not used to boost underlying profits. This is very commendable behaviour which other companies would do well to copy.

Thirdly, its financial performance is very impressive. It has high profit margins, great returns on capital, turns its profits into free cash flow and has a debt-free, cash-rich balance sheet. It is in many ways an outstanding business. Take a look for yourself.



These results are the fruits of many years of hard work and diligence by the management and its employees. The focus on high-quality products, customer service, efficient manufacturing and adherence to regulations and standards have created a fiercely competitive and impressive business.

As an investor these kinds of characteristics are quite rare. To make a profitable long-term investment though you need two extra ingredients: future profit growth and a reasonable valuation.

This is where James Halstead shares have faced difficulties in 2017. The shares are down just over 8% since the start of the year but have fallen nearly 18% from their 52 week high of 542p. I put this down to the shares' high valuation and the company's weak profit growth.

The last point was borne out in this week's full year results announcement. Revenues were up by a healthy amount, helped by the fall in the value of the pound but profit margins were squeezed by higher raw material costs for a similar reason. A £14.7m increase in revenues fed through to a £1.1m increase in pre-tax profit to £46.6m.

Yet it would seem that some of the problems that held the company back last year have been resolved. The destocking of flooring by two large distributors in the UK seems to be over. A weak performance in Scandinavia aside, the company has started its new financial year in good health and trading is strong.

The retiring chairman Geoffrey Halstead commented:

"Trading since our year-end has been strong, particularly in the UK. In addition, both our antipodean and French colleagues reported record sales in the first two months. Taking current trading into account I can only be confident of progress in the coming year."

Chief executive, Mark Halstead added a little more flavour:

"There are positive signs in the UK that after the turbulence of the last year resulting from changes at two of the larger distributors conditions are now normalising. In addition, our supply chain issues have largely been resolved. The early months of the new financial year have provided encouraging signs of growth with turnover increasing. I am optimistic for the coming year."

This is encouraging and led to broker Panmure Gordon increasing its 2018 pre-tax profit forecast to £48.7m which implies growth of 4.5% on 2017's performance. Arden Partners is forecasting pre-tax profits of £48.5m which translates to EPS of 18.2p.

Yet back in June when I last reviewed the company, 2018 pre-tax profit forecasts were £50m which is now the forecast for 2019. Meaningful profit growth is therefore still a major issue for James Halstead.

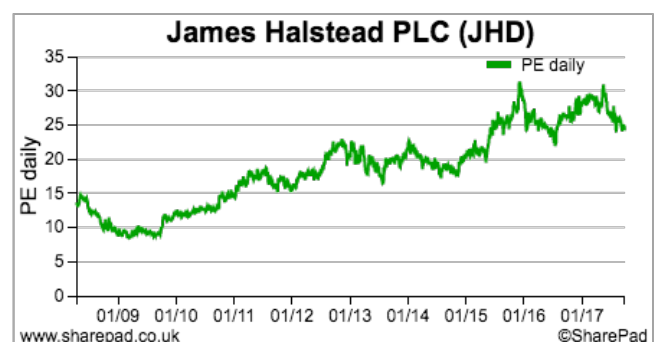
James Halstead PLC (JHD)

	2014	2015	2016	2017	2018	2019
← Prev Next →						
Fiscal period ending	30/6/14	30/6/15	30/6/16	30/6/17	1/6/18	1/6/19
£ millions unless stated	Q4	Q4	Q4	Q4	Forecast	Forecast

KEY FORECASTS

Turnover	223.5	227.3	226.1	240.8	252.0	262.0
Norm EBITDA	44.8	47.4	48.9	47.3	51.9	53.5
EBIT	42.1	44.7	46.0	47.3	-	-
EBIT margin	18.8	19.7	20.4	19.6	-	-
Norm Pre-tax	41.6	44.1	45.5	46.6	48.5	50.0
EPS(p)	15.0	16.3	17.0	17.6	18.2	18.8
EPS % chg	▲3.9	▲8.2	▲4.3	▲3.7	▲3.4	▲3.3

At a share price of 445p, this puts the shares on a 2018F PE of 24.5 times. This represents a reduction from the 26.2 times back in June but remains a very expensive valuation nonetheless. The PE is inflated by 25.2p per share of cash but adjusting for this still puts the shares on a PE of 23.1 times.



As much as I like James Halstead as a business my concern is that the shares are still expensive given the modest growth outlook and are therefore vulnerable to a further valuation derating (a lower PE ratio) if growth does not pick up.

A forward PE of 20 times would still be pretty punchy and towards the upper end of its historic range. This would give a valuation per share of 364p and imply a further 18% downside. I'm not saying that this will happen but it is a risk.

Share Discussion: SCS Group (LSE:SCS)

Trying to make money from selling sofas, carpets and flooring is extremely hard work. The market is very competitive and profit margins are wafer thin.

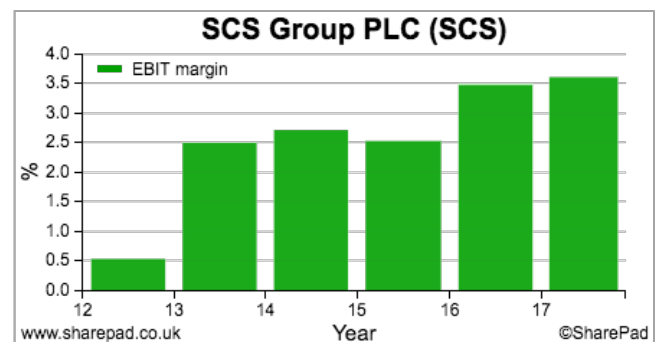
Profits of 3.5p per £1 of sales can disappear in a flash when times get tough. The business is also very sensitive to the general health of the economy and the housing market in particular.

These concerns are very reasonable and explain why SCS shares do not command a high valuation on the stock market. At 170p the shares trade on just 7.6 times 2018 EPS and offer a stonking dividend yield of 8.8%. Unlike James Halstead above, SCS shares are not assuming much - if any - sustainable growth in profits.

If profits fall then the share price will not escape unscathed but if profits rise or the outlook for profits improve then the share price can rise sharply. That's what happened this week when the company announced better than expected full year results.

Revenues were up 4.9% and trading profits increased by 8.8%. Sales per square foot - a decent measure of retailer prowess - increased by 3.2%. The company's financial position strengthened due to strong free cash flows with year-end cash balances of £40m and no debt. The full year dividend was nudged up by 1.4% which supports the yield on the shares.

The free cash flow figure of £23m was impressive at first glance but this does not look sustainable as it was achieved mainly by



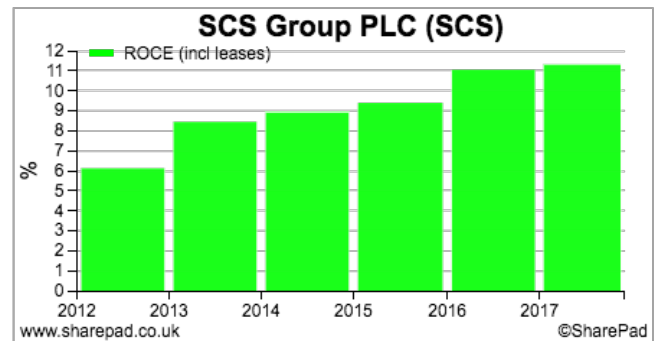
	2017 GBP'000	2016 GBP'000
Cash flows from operating activities		
Profit before taxation	11,963	10,884
Adjustments for:		
Depreciation of property plant and equipment	4,806	4,478
Amortisation of intangible assets	599	556
Share-based payments	154	437
Finance costs	96	217
Finance income	(70)	(86)
	17,548	16,486
Changes in working capital:		
Decrease / (increase) in inventories	1,104	(2,483)
Increase in trade and other receivables	(685)	(127)
Increase / (decrease) in trade and other payables	12,123	(658)
Cash generated from operating activities	30,090	13,218
Interest paid	(96)	(217)
Income taxes paid	(1,220)	(2,049)
Net cash flow generated from operating activities	28,774	10,952

delaying payments to suppliers - an increase in trade payables - to the tune of £12m.

The suppliers concerned will have to be paid this year and so expect a large outflow from this source next year and a potential big reduction in free cash flow in 2018.

Across the company's 100 stores, 27 House of Fraser concessions and online, things seem to be holding up quite well despite a tough consumer spending environment. The company is comfortably earning enough money to pay its rent bill (Fixed charge cover) and the dividend looks safe.

ROCE is actually quite respectable despite the low profit margins earned.



Analysts are not expecting a calamitous drop in profits anytime soon.

SCS Group PLC (SCS)							
← Prev	Next →	2014	2015	2016	2017	2018	2019
Fiscal period ending		26/7/14	25/7/15	30/7/16	29/7/17	1/7/18	1/7/19
£ millions unless stated		Q4	Q4	Q4	Q4	Forecast	Forecast
KEY FORECASTS							
Turnover	▲	244.1	276.7	317.3	333.0	349.7	361.0
Norm EBITDA		10.8	11.8	16.0	17.4	17.3	17.8
EBIT		6.6	7.0	11.0	12.0	-	-
EBIT margin		2.7	2.5	3.5	3.6	-	-
Norm Pre-tax		7.2	2.5	10.9	12.0	11.8	12.1
EPS(p)	▲	14.8	4.9	21.3	22.9	22.5	23.0
EPS % chg	▲	▲125.3	▼-66.7	▲332.9	▲7.5	▼-1.7	▲2.2

So whilst SCS might not be the highest-quality business in the world with the highest-quality earnings I can't help thinking that the shares are actually quite cheap. Even if the share price stays as it is, investors can earn an 8.8% total return just from the dividend income.

Some care does need to be exercised when working out just how cheap the business is though. It has a market capitalisation of £68m and net cash of £40.1m. This theoretically gives an enterprise value (EV) of just £28m compared with post tax profits of £9.4m which makes the business look unbelievably cheap.

The problem with netting off cash balances in calculating EVs is that the cash balance is just a function of the timing of the financial year end and isn't free for owners to get their hands on - it has to be used to pay off liabilities such as suppliers mentioned above.

This subject is worthy of an article in itself but my view is that SCS' true surplus cash balances are less than £40m. Perhaps a better approach is to look at the net working capital position (current assets less current liabilities) instead.

We could take the cash, stocks and trade debtors and assume they are cash or almost cash which can be used to pay the outstanding current liabilities such as suppliers and the tax bill.

This would leave surplus cash of £16m and a revised EV of £52m which would give a cash-adjusted PE of just 5.5 times (£52m/£9.4m).

Clearly the big risk with these shares is that a recession or housing market slowdown reduces these profits but it looks as if that kind of scenario is already priced into the shares.

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Share Discussion: Greggs (LSE:GRG)

Newcastle-based bakery chain Greggs has been a great long-term investment. In my opinion, the company's success is down to its very attractive business model. It makes a lot of the food it sells itself and then concentrates on offering outstanding value for money to its customers.

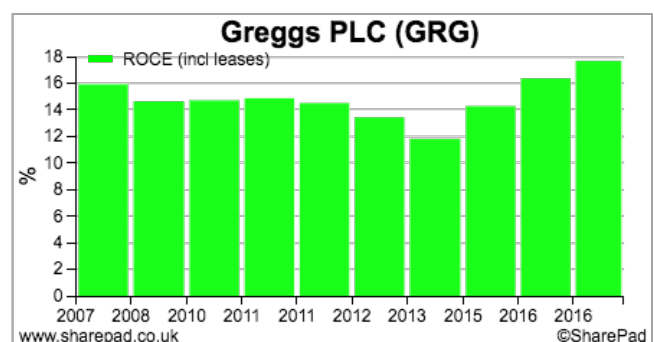


If you walk into one of its shops it doesn't take you long to realise that it costs a lot less to buy a sandwich and a cup of coffee in there than many of the other affectionately-named food-on-the-go shops that occupy our high streets and transport hubs.

It has not always been plain-sailing for this company. It has had to adjust to volatile ingredients costs in recent years and the changing trends in shopping which has led it to close many of its high street shops and relocate them to areas of higher footfall such as train stations and university campuses.

Greggs' shares have been very popular with investors and the share price is up over 30% so far this year and by over 150% during the last five. The company has been spending money on repositioning its shops towards more profitable locations and has a growing franchise business as well. It has also been very innovative in tailoring its food and drink offers to a growing breakfast market as well as lunches.

Sales and profits have grown nicely and ROCE has been increasing. Greggs ROCE - which is adjusted for the estimated capital value of its rented shops - is now at a level that represents a very high quality business in my view. It's the kind of profitability that the big supermarket chains are nowhere near to matching.



This week's third quarter trading statement contained further reassuring news. Like-for-like sales in its managed shops (1,636 out of a total of 1,830) were up by 5% and by 3.9% overall as customers seem to like its current product range and improved customer service.

The company has opened a net 66 new shops so far this year (opened 98 and closed 32) and this number should increase to 100 by the end of the year giving it a good base for further sales growth in 2018.

Greggs PLC (GRG)						
← Prev Next →	2014	2015	2016	2017	2018	2019
Fiscal period ending	3/1/15	2/1/16	31/12/16	1/12/17	1/12/18	1/12/19
£ millions unless stated	Q4	Q4	Q4	Forecast	Forecast	Forecast
KEY FORECASTS						
Turnover	806.1	835.7	894.2	949.4	1,014.4	1,039.1
Norm EBITDA	99.9	116.3	130.8	131.0	142.9	157.0
EBIT	62.4	76.1	85.3	81.0	85.2	89.0
EBIT margin	7.7	9.1	9.5	8.5	8.4	8.6
Norm Pre-tax	62.5	76.0	85.3	81.2	85.2	97.3
EPS(p)	49.4	58.5	66.8	63.1	67.2	74.9
EPS % chg	▲43.8	▲18.5	▲14.3	▼-5.6	▲6.5	▲11.5
Dividend per share Adj	22.0	28.6	31.0	32.9	34.3	37.7
Dividend per share %chg Adj	▲12.8	▲30.0	▲8.4	▲6.1	▲4.3	▲9.9
Dividend cover	2.2	2.0	2.2	1.9	2.0	2.0

Like many retailers, rising costs are a concern with ingredients and wage expenses rising. Despite strong sales growth, profit expectations for the year to December are unchanged with EPS expected to be lower than in 2016.

Greggs retains its very clean balance sheet with net cash balances but the shares look up with events on a forecast 2017 PE of just over 20 times falling to 18.9 times in 2018. Without profit upgrades, the shares may pause for breath after a very good run.

Quickly scanning a sector in SharePad

I have set up a lot of analysis tables in my SharePad account which I use to compare companies in different sectors. This allows me to very quickly weigh up companies on criteria such as quality, safety, valuation and their price momentum. This then provides the basis for my research efforts.

You can make these as simple or as comprehensive as you want given the huge amount of data choices on offer. These tables are easy and quick to set up by adding columns to a new List table. In the List view, click on the **Setting** menu at the bottom of the view and select **Create new**.

Once you've set them up you can save them and apply them to any portfolio or list of shares. If you need any help doing this then give our customer service team a call and they will soon have you up and running with this.

Here are some examples using the UK pubs sector. Simply sorting by each column will show the companies that rank highly across the board.

Quality

Name	EBIT margin	EBIT margin 10y avg	Lease-adj ROCE	Lease-adj ROCE 10y avg	FCF margin	FCF margin 10y avg	Lease-adj CROCI	Lease-adj CROCI 10y avg	Capex ratio	Capex ratio 10y avg	ROE	ROE 10y avg
Greene King PLC	17.6	20.5	7.7	8.3	4.4	4.5	5.2	5.1	39.4	40.5	11.3	12.6
Wetherspoon (J D) PLC	7.7	8.8	10.8	10.7	-0.6	6.2	4.6	10.7	83.5	31.1	34.8	27.3
Mitchells & Butlers PLC	15.2	15.3	7.1	6.8	2.6	4.1	4.4	5.2	44.5	40.8	12.1	9.1
Marston's PLC	17.6	21.8	6.5	6.9	-3.3	-3.5	1.9	2.1	74.6	70.6	10.4	9.9
EI Group PLC	43.7	42.5	6.9	6.3	17.7	14.3	6.6	6.0	1.4	8.6	7.9	6.1
Young & Co's Brewery PLC	16.4	16.2	6.6	6.8	5.8	1.5	3.5	2.1	54.3	69.4	6.5	7.0
Fuller Smith & Turner PLC	12.7	13.9	8.4	8.6	5.7	3.5	5.2	3.9	48.3	56.2	11.0	10.0
Revolution Bars Group PLC	2.9	6.5	7.4			0.8				92.5	19.4	

Safety

TIDM	Name	Fxd charge cover	Interest cover	Debt to market cap.	Debt to EV	Debt to FCF	Debt to net Op. CF	Net debt to EBITDA	Dividend cover	FCF div cover	fc Dividend cover
GNK	Greene King PLC	2.3	3.1	151.5	61.5	26.0	5.7	4.9	2.1	0.9	2.0
JDW	Wetherspoon (J D) PLC	1.7	7.2	55.3	36.5	-73.9	3.7	3.4	5.7	-0.8	5.6
MAB	Mitchells & Butlers PLC	1.9	2.5	233.5	76.0	44.8	7.1	5.1	5.2	1.8	4.6
MARS	Marston's PLC	1.9	2.2	212.3	74.3	-48.8	8.1	6.4	1.9	-0.7	1.8
EIG	EI Group PLC	1.6	1.7	366.6	80.7	20.9	8.7	7.8			
YNGA	Young & Co's Brewery PLC	3.6	8.0	24.3	19.7	9.3	2.6	2.2	3.4	1.7	
FSTA	Fuller Smith & Turner PLC	3.3	7.9	75.8	44.5	11.5	4.1	3.4	3.2	2.1	3.1
RBG	Revolution Bars Group PLC	1.4	20.2						9.6		2.5

Momentum & Technical

Name	%chg 1m	%chg 3m	%chg 6m	%chg 1y	RSI 1m	RSI 3m	RSI 6m	RSI 1y	Price % 50dma	Price % of 200dma	52wk low	Price % of 52wk low	Date 52wk low	52wk high	Price % of 52wk high	Date 52wk high
Greene King PLC	▼-18.6	▼-17.7	▼-22.6	▼-31.7	31.1	37.5	41.6	44.8	85.9%	78.8%	538.5p	100%	4/10/17	788p	68.3%	4/10/16
Wetherspoon (J D) PLC	▲20.9	▲32	▲34.9	▲34.1	69.2	64.6	61.1	57.9	116%	128%	814p	157%	12/12/16	£12.78	99.9%	25/9/17
Mitchells & Butlers PLC	▲0.0...	▲9.52	▲2.42	▼-13.2	52.7	51.3	49.7	48.6	102%	101%	221p	113%	12/7/17	287.8p	86.8%	4/10/16
Marston's PLC	▼-7.01	▼-12.2	▼-20.3	▼-28.1	40.1	40.4	42.9	45.5	95.3%	83.2%	102.7p	103%	14/9/17	147.7p	71.9%	4/10/16
EI Group PLC	▼-3.63	▲6.41	▼-3.63	▲45.1	44.9	49.2	51.3	51.7	96.7%	98.2%	86.25p	154%	10/10/16	148.75p	89.2%	11/5/17
Young & Co's Brewery PLC	▼-2.38	▲4.03	▲0.594	▲3.04	49.3	51.9	52.1	52.2	99.8%	101%	£13.00	104%	3/7/17	£13.98	96.9%	25/8/17
Fuller Smith & Turner PLC	▲1.45	▲3.55	▲7.47	▲0.191	56.6	51.6	50.8	50.4	103%	103%	972p	108%	23/11/16	£10.96	95.8%	29/6/17
Revolution Bars Group PLC	▼-0.119	▲94.5	▼-5.18	▲36.7	66.6	58.2	54.1	52.1	108%	113%	105.5p	200%	10/7/17	234.5p	89.8%	3/3/17

Valuation

Name	Close	Market Cap. (m)	fc PE	fc Yield	EBIT yield	Price to NAV
Greene King PLC	538.5p	£1669.2	7.9	6.2	9.5	0.9
Wetherspoon (J D) PLC	£12.77	£1349.8	19.0	0.9	6.3	6.1
Mitchells & Butlers PLC	249.7p	£1055.1	7.2	3.0	9.8	0.7
Marston's PLC	106.2p	£701.3	7.7	7.2	8.2	0.9
EI Group PLC	132.75p	£639.7	7.3		9.5	0.5
Young & Co's Brewery PLC	£13.55	£600.0			6.0	0.8
Fuller Smith & Turner PLC	£10.50	£340.0	17.0	1.9	8.6	1.1
Revolution Bars Group PLC	210.5p	£105.3	15.5	2.6	3.5	

If you want to find out the average values for a list of shares then follow these steps:

1. Highlight the column you want the average data for e.g. Forecast PE.
2. Click the **Options** button on the List view menu bar and then select **Column statistics**.

This is shown below:

The screenshot shows the ShareScope interface with a table titled "Portfolio: Pubs and Bars sorted by Market Cap. (m) (8 items)". The table columns are No., TIDM, Name, Close, EBIT yield, and Price to NAV. A context menu is open over the "EBIT yield" column, showing options like "ALIGN", "FONT", "OTHER", and "Column statistics by sector" (which is highlighted in red).

The statistics will be displayed in a pop-up as shown below.

SharePad

FTSE 100 FTSE 350 Other Lists Port: Pubs ... Port Market Search

Column Options Deselect Add Edit Sort Rename Delete Options Move

Portfolio: Pubs and Bars sorted by Market Cap. (m) (8 items)

No.	TIDM	Name	Close	Market Cap. (m)	fc PE
1	GNK	Greene King PLC	538.5p	£1669.2	7.9
2	JDW	Wetherspoon (J D) PLC	£12.77	£1349.8	19.0
3	MAB	Mitchells & Butlers PLC	249.7p	£1055.1	7.2
4	MARS	Marston's PLC	106.2p	£701.3	7.7
5	EIG	EI Group PLC	132.75p	£639.7	7.3
6	YNGA	Young & Co's Brewery PLC	£13.55	£600.0	
7	FSTA	Fuller Smith & Turner PLC	£10.50	£340.0	17.0
8	RBG	Revolution Bars Group PLC	210.5p	£105.3	15.5

forecast PE

Statistics for: Portfolio: Pubs and Bars

Average	9.9
Weighted average	9.2
Median value	7.9
Minimum value	7.2
Maximum value	19.0
Number in list	8
Number included	7

?

A further way to compare a list of shares across a range of valuation, quality and safety measures is using the **Compare** button on SharePad's main toolbar. Click on the orange **Help** (?) button in the Compare view for guidance on how to use it. Or, again, call the Support team – they'll be happy to help.

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