Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

10th November 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	7484.1	▼-0.943	▼-0.317	▲8.28	7562.28	6730.43	6/11/17	11/11/16
2	FTSE 250	20071.9	▼-1.54	▼-0.153	▲14.1	20472.4	17435.3	3/11/17	2/12/16
3	FTSE SmallCap	5829.19	▼-0.997	▲0.457	▲19.8	5892.71	4862.64	3/11/17	11/11/16
4	FTSE AIM 100	5293.24	▼-0.835	▲2.25	▲38.1	5377.07	3819.39	7/11/17	11/11/16
5	FTSE All-Share	4108.39	▼-1.04	▼-0.261	▲9.6	4156.95	3664.05	3/11/17	11/11/16
6	S&P 500	2567.5	▼-0.479	▲0.895	▲18.7	2594.38	2163.26	8/11/17	9/11/16
7	Brent Oil Spot $	$63.875	▲5.24	▲14.5	▲37.3	$64.08	$44.565	6/11/17	11/11/16
8	Gold Spot $ per oz	$1286.57	▲0.689	▲0.256	▲0.809	$1349.10	$1128.22	7/9/17	15/12/16
9	GBP/USD - US Dollar per British Pound	1.31352	▲0.625	▼-0.0502	▲5.76	1.3591	1.20401	15/9/17	16/1/17
10	GBP/EUR - Euros per British Pound	1.1282	▲0.777	▲0.804	▼-0.809	1.1972	1.0795	18/4/17	29/8/17

Top Risers

No.	TIDM	Name	%chg 1w
1	IRV	Interserve PLC	▲13.4
2	UPGS	UP Global Sourcing Holdings ...	▲9.92
3	PTEC	Playtech PLC	▲9.38
4	AVON	Avon Rubber PLC	▲9.15
5	SPO	Sportech PLC	▲7.07
6	TRI	Trifast PLC	▲6.28
7	GMS	Gulf Marine Services PLC	▲6.12
8	CMCX	CMC Markets PLC	▲5.78
9	INF	Informa PLC	▲5.63
10	SUS	S & U PLC	▲5.61

Top Fallers

No.	TIDM	Name	%chg 1w
1	LMI	Lonmin PLC	▼-35.3
2	ISAT	Inmarsat PLC	▼-15.9
3	CRST	Crest Nicholson Holdings Ltd	▼-10.8
4	HIK	Hikma Pharmaceuticals PLC	▼-10.7
5	TCAP	TP ICAP PLC	▼-9.85
6	SNN	Sanne Group PLC	▼-9.19
7	PDL	Petra Diamonds Ltd	▼-8.61
8	FDL	Findel PLC	▼-8.43
9	GFS	G4S PLC	▼-8.03
10	RDW	Redrow PLC	▼-7.94

Synthomer (LSE:SYNT)

Synthomer is a speciality chemicals company. Its shares have proven to be a very good investment having tripled over the last five years including a 30% gain so far this year.

These high-end manufacturing businesses can make fabulous investments because they can do things that are difficult to copy which protects them from competition. This in turn leads to above-average levels of profitability - read high profit margins and returns on capital employed (ROCE). There are quite a few of these businesses listed on the London stock exchange.

The problem with some of them is that sometimes outside investors find them very difficult to understand. Synthomer is a good example of this. Its investor website is packed full of jargon which gives the impression that you need a degree in chemistry to understand what the company does and how it makes money. I can't help thinking that some companies would attract more private investors if they explained their businesses in plain english with some good examples of what their products do.

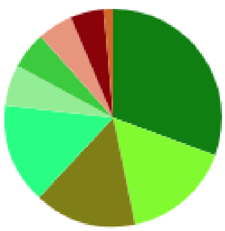
Having spent some time going through its products page this is my take on what it does. Generally speaking, it makes products which help make its customers products even better and more competitive.

It makes a variety of niche products that are used across many different sectors of the economy. Examples include:

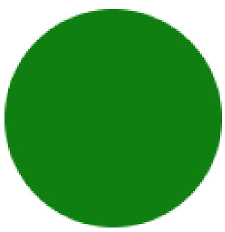
- Adhesives - such as speciality glues, packaging tapes and pressure-sensitive adhesives (forms a bond when pressure applied without the need for heat or glue).
- Bedding and footwear foams.
- Carpet products to improve manufacturing process, durability and performance.
- Health and protection products such as protective gloves for use in medical and industrial environments.
- Binders used to help paints and coatings stick better to surfaces to give better quality and more durable finishes.
- Binders used in paper and packaging products. This helps improve things such as print quality.
- Construction products that help the performance of products such as mortars, waterproofing and flooring adhesives.
- Other specialist products.

Synthomer PLC (SYNT)

ACTIVITY BREAKDOWN Last updated 31/12/16



Region	Turnover	%
Other Western Europe	320.4m	30.6%
Malaysia	168.8m	16.1%
Germany	158.4m	15.2%
Other Asia	155.6m	14.9%
Eastern Europe	63.8m	6.1%
North America	57.4m	5.5%
UK	54.8m	5.2%
Africa and Middle East	51.9m	5.0%
Rest of World	14.6m	1.4%



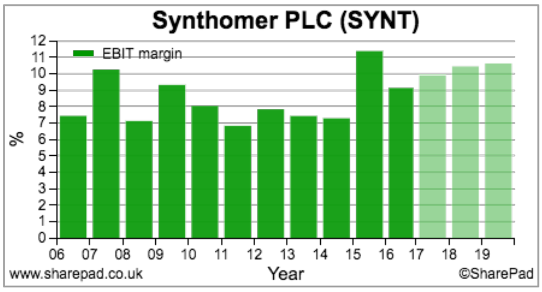
Product	Turnover	%
Polymer products	1,045.7m	100.0%

Turnover | Pre tax profit | Total assets

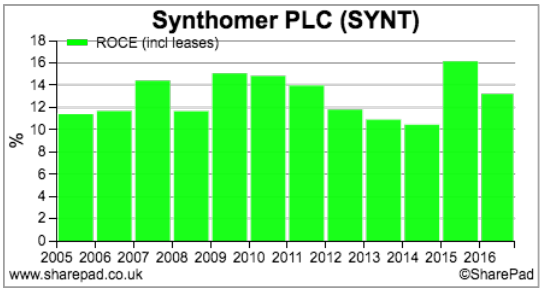
The company makes most of its money outside of the UK with around three quarters of its sales coming from Europe and Asia in 2016.

Let's have a look at how this company stacks up on some measures of financial performance.

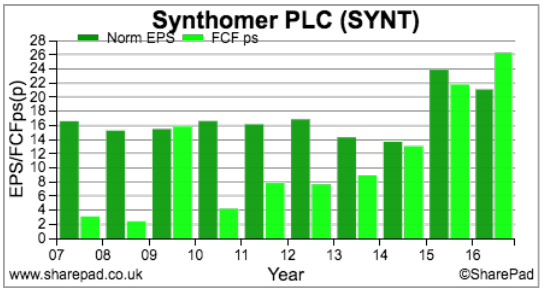
Profit margins are reasonable rather than very high but are expected to increase over the next few years.



ROCE performance has been reasonably consistent and is just over 13%. To me this is a sign of a good rather than an outstanding business.

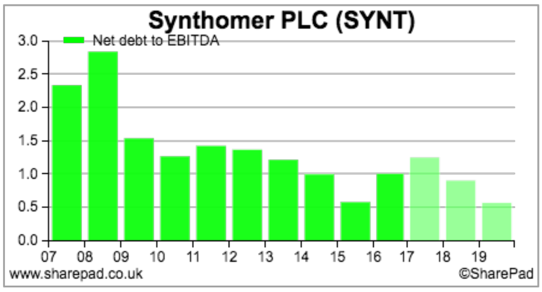


Synthomer has been getting better at converting its profits into free cash flow in recent years which is a positive sign.



The company does have some debt and also a pension fund deficit. This does introduce some financial gearing to the company's trading profits which is great if they are growing but an increased risk if profits start to fall.

Gearing as measured by net debt to EBITDA is at a comfortable level. SharePad now has forecasts for this ratio. As we can see, analysts expect this ratio to increase in 2017 - mainly due to spending on acquisitions - but to come down quite sharply in 2018 and 2019.



So how has the company been getting on lately?

Not too badly is the answer. Profits have been growing nicely so far this year with help from acquisitions and the fall in the value of the pound. These effects are likely to wear off going forward though.

This week's trading statement contained mixed news. Business in North America and Europe is going well with sales volumes and margins in line with expectations. Some weakness in construction and coatings was offset by a good performance from latex products for paper and foam markets. This business should be strengthened by the recent acquisition of BASF's latex business in Austria.

Asia and the rest of the world have seen softer trading conditions with flat volumes. The nitriles market - latex used to make rubber gloves - has remained strong but profit margins have fallen due to increases in industry capacity. Synthomer will also add its own extra capacity in Malaysia in 2018.

Too much capacity in an industry is always something to be wary of as an investor. Manufacturing plants have high fixed costs and need to be kept busy in order to cover them. This can lead to aggressive price discounting and pressure on industry margins which lowers returns for investors. The developments in the nitrile market should be closely watched.

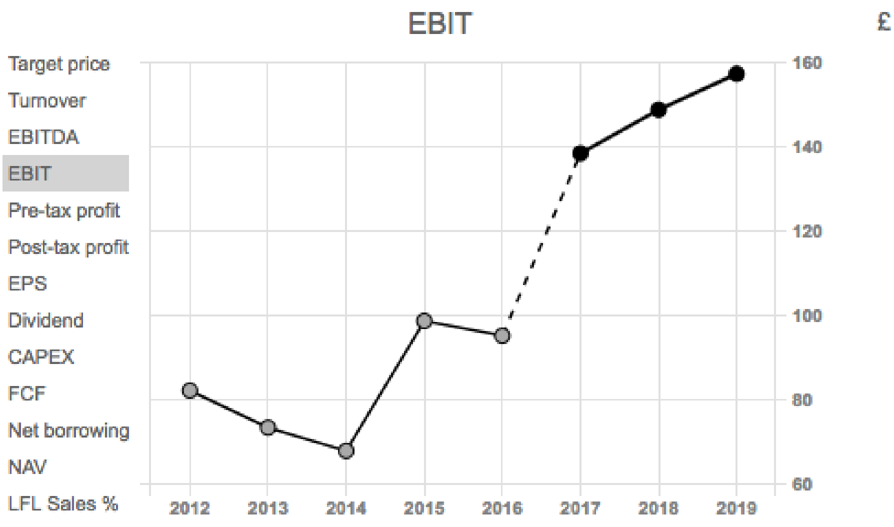
The company's expectations for 2017 profits remained unchanged and the shares have not done much this week.

2017 should see a big jump in profits due to acquisitions and currency effects. Going forward, growth is expected to be more modest but with profit margins improving. Note the expected improvements in free cash flow and net borrowing which would be welcome.

Synthomer PLC (SYNT)

FORECASTS £ millions unless stated

Year	2017		2018		2019	
Turnover	1,403.0	+34.2%	1,428.3	+1.8%	1,484.0	+3.9%
EBITDA	173.3	+13.8%	185.6	+7.1%	196.5	+5.9%
EBIT	138.7	+45.3%	149.0	+7.5%	157.5	+5.7%
Pre-tax profit	129.9	+32.2%	138.9	+6.9%	148.5	+6.9%
Post-tax profit	100.8	+40.0%	107.7	+6.9%	114.2	+6.0%
EPS (p)	29.5	+39.9%	31.2	+5.8%	33.3	+6.7%
Dividend (p)	11.8	+4.4%	12.4	+5.1%	13.4	+8.1%
CAPEX	56.3	+23.4%	52.7	-6.3%	42.8	-18.8%
Free cash flow	63.7	-29.1%	70.7	+11.0%	100.9	+42.7%
Net borrowing	215.4	+41.8%	166.3	-22.8%	110.4	-33.6%
NAV	-		-		-	
LFL sales growth %	-		-		-	



You can also see that free cash flow is expected to be less than post tax profits in 2017 and 2018 but should be fairly close to it in 2019 as capex comes down. Historically, the company has also tended to need a bit of cash for working capital purposes when it is growing and this eats into free cash flow a little but not at a level that should cause any concern.

I think Synthomer is a pretty decent business and one that should be able to at least grow in line with global GDP going forward.

Name	Close	Market Cap. (m)	PE roll 1	fc PE	fc Yield	EBIT yield	Price to NAV
Synthomer PLC	495.6p	£1684.5	16.0	16.8	2.4	4.7	5.2

Trading on a one year rolling forecast PE of 16 times it is not excessively valued albeit not a bargain either. That said, I can think of worse homes for your money. This might be a share worth considering for those prepared to buy and tuck away for the next few years.

Centamin (LSE:CEY)

Analysing and appraising mining companies is very difficult for the general investor. In my experience, each company is different with individual mines having different reserves and cost characteristics which really need to be examined and valued separately. This is before issues such as licensing and politics come into play. To do this well can take many hours or days of painstaking work.

This is something that is beyond me but there are a few simple pointers that investors can look at which can allow them to get a grasp of what is going on with a company.

- How much of the metal or resource is being produced?
- How much has been sold?
- What price has it been sold for?
- The cost of getting it out of the ground.
- The cash spent on exploring for new reserves.
- The profits and cash left over for shareholders.

With Centamin, there is only one asset to focus on. This is the Sukari gold mine in Egypt. In 2015, this mine was reported to have gold reserves of around 8.8 million ounces and a working life of around 20 years. Production started in 2010 which suggests that there is around 13 years left.

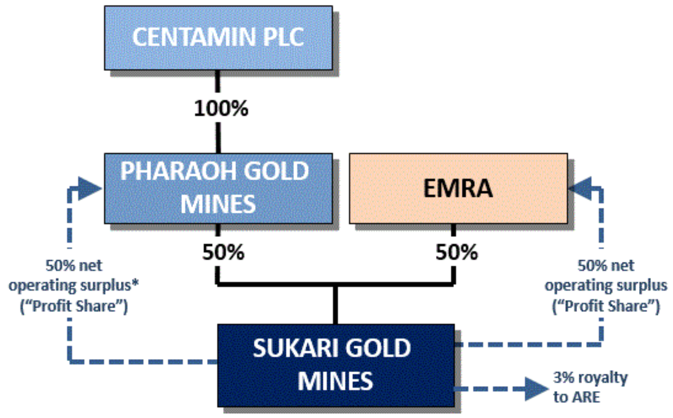
The mine is subject to a licence agreement which is neatly explained overleaf.

Sukari Concession Agreement

Centamin's primary, wholly owned subsidiary is called Pharaoh Gold Mines NL (PGM) and our interests in the Concession Agreement for Sukari are held and registered in the name of PGM. PGM owns 50% of the operating company, Sukari Gold Mines (SGM), with the Egyptian Mineral Resource Authority (EMRA) owning the remaining 50%. The Concession Agreement granted SGM the right to explore, develop, mine and export gold at the Sukari Gold Mine.

The fiscal terms of the Concession Agreement are as follows:

- PGM must solely fund SGM and is responsible for the day-to-day management of the company, but PGM is entitled to recover costs and expenses from sales revenue from EMRA
- PGM will not pay any taxes or duties for 15 years, with an option to extend for further 15 years
- PGM will pay a royalty of 3% net sales revenue
- After the deduction of recoverable expenses and the payment of the 3% royalty, the profits are shared equally between PGM and EMRA (*with an additional 10% of proceeds paid to PGM in the first 2 years that there are net proceeds and an additional 5% in the following 2 years).



Essentially Centamin has to give away 50% of its profits to the Egyptian Mineral Resource Authority (EMRA) after paying 3% of sales as a royalty to the Egyptian government. This is a big chunk of money which reduces the profits that ultimately flow to Centamin shareholders.

If we look at how Centamin has been doing with its mine then the picture from its third quarter results is mixed. Production is up to 156,533 ounces (+5.3% vs Q3 2016) but the amount of gold sold is virtually unchanged. The cost of getting the gold out of the ground has also gone up.

With the selling price of gold achieved barely unchanged as well, revenue is 3.8% lower than a year ago. Free cash flow is also down significantly.

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Q3 2017 PRODUCTION SUMMARY

CENTAMIN

		Q3 2017	Q2 2017	Q3 2016
Open Pit Total Mined	('000 tonnes)	18,602	17,493	16,191
Open Pit Ore Mined	('000 tonnes)	4,825	3,060	2,936
Open Pit Mined Grade	(g/t)	0.76	0.76	1.06
Underground Ore Mined	('000 tonnes)	302	293	256
Underground Mined Grade	(g/t)	7.98	8.79	8.97
Ore Processed	('000 tonnes)	2,996	3,056	2,806
Head Grade	(g/t)	1.82	1.44	1.83
Gold Recovery	(%)	88.3%	86.7%	89.7%
Dump Leach Gold Production	(ounces)	1,692	1,738	1,897
Total Gold Production	(ounces)	156,533	124,641	148,674
Gold Sold	(ounces)	150,373	120,912	150,201
Cash Cost of Production(1)	(US$/oz)	483	609	466
All-in Sustaining Cost(2)	(US$/oz)	732	829	644

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Q3 2017 FINANCIAL HIGHLIGHTS

CENTAMIN

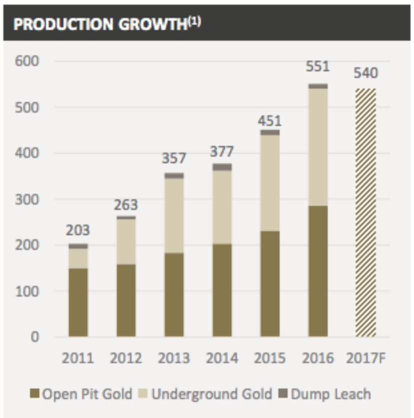
		Q3 2017	Q2 2017	Q3 2016
Revenue	US$m	193.1	151.3	200.8
EBITDA	**US$m**	**103.6**	**66.0**	**122.0**
Profit before tax	US$m	75.4	37.8	93.7
Profit share to EMRA	**US$m**	**35.4**	**24.0**	**28.8**
Net profit	US$m	39.5	12.7	64.9
Basic EPS (after profit share)	US cents	3.41	1.10	5.62
Net cash generated from operations	US$m	109.5	77.6	139.8
Sustaining capital expenditure[1]	US$m	23.7	16.5	17.1
Non-sustaining capital expenditure	US$m	0.6	1.4	-
Exploration expenditure	US$m	7.9	7.8	12.4
Free Cash Flow[2]	**US$m**	**45.2**	**31.1**	**105.4**
Cash and equivalents	US$m	313.0	297.0	388.4
Cash and liquid assets[3]	**US$m**	**345.8**	**333.6**	**416.9**

One of the first things to understand as a mining investor is that there is huge operational gearing from a mine. This means that there are lots of fixed costs but the profits are very sensitive to the amount of gold sold and more importantly the price of gold. You can see this more clearly in the table on right.

Centamin ($m)	Q3 17	Q3 16	Change
Revenue	193.3	200.8	-3.74%
EBITDA	103.6	122	-15.08%
Pretax profit	75.4	93.7	-19.53%
Post-tax profit	39.5	64.9	-39.14%

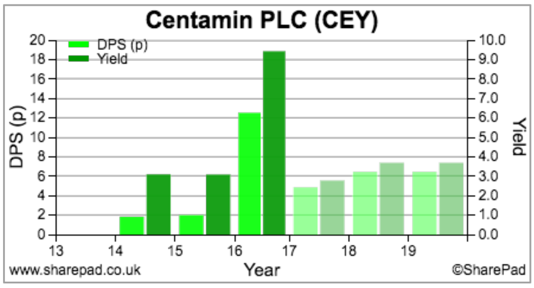
So a 3.74% decline in revenue has led to 19.5% decline in pre-tax profit. A large increase in the profit share to EMRA has led to a 39.1% reduction in the profits to shareholders. This profit share concerns me as it does gear Centamin's shareholder profits considerably.

Thankfully, Centamin is debt free which means that the risk of financial gearing is not an additional worry. Operational gearing of course can work both ways. A sharp rise in the gold price could feed through to big growth in profits and cash flows.



It's very simplistic but I see companies such as Centamin as a geared play on the gold price and where that will be in one, three or ten years' time is anyone's guess. Of course, Centamin can help itself by increasing production and gold sales, but production growth is expected to be broadly flat in 2017 after some good years of growth.

Centamin has a dividend policy of paying out a minimum of 30% of its post-sustaining capex free cash flow. It has a cash balance target of between $250m-£300m. Excess cash flow will be paid out to investors.



Looking at analysts' forecasts, not much dividend growth is expected whilst the potential dividend yield on offer does not look to be particularly mouthwatering.

City brokers are generally bullish on Centamin shares despite the fact that they have essentially gone nowhere in 2017. I accept the argument that these shares could do well if gold prices take off but given the risks associated with high operational gearing investors might be better off buying a gold ETF instead.

Centamin PLC (CEY)

BREAKDOWN

Opinion			Brokers	
	1	Buy	7	
	2	Out Perform	4	
	3	Hold	3	
	4	Under Perform	0	
	5	Sell	0	
	0	No Opinion	0	Not included in consensus
	1.71	**Out Perform**	**14**	**Consensus**

FORECASTS

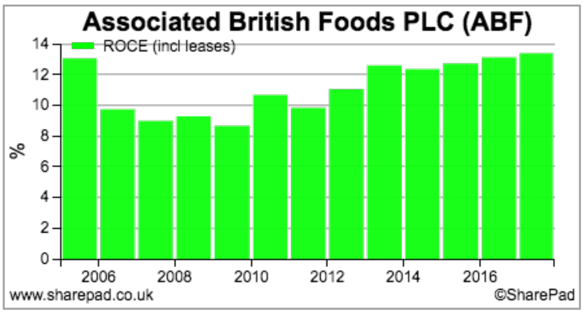
£ millions unless stated

Year	2017		2018		2019	
Turnover	521.6	+2.4%	558.2	+7.0%	580.7	+4.0%
EBITDA	255.4	+7.2%	292.9	+14.7%	308.3	+5.3%
EBIT	174.0	+9.4%	209.9	+20.6%	224.4	+6.9%
Pre-tax profit	185.8	-6.1%	204.0	+9.8%	213.9	+4.8%
Post-tax profit	101.2	-36.4%	116.5	+15.1%	118.5	+1.7%
EPS (p)	8.7	-36.6%	10.1	+15.8%	10.1	+0.8%
Dividend (p)	4.9	-61.0%	6.5	+32.8%	6.5	0.0%
CAPEX	73.8	-6.6%	68.4	-7.3%	68.9	+0.7%
Free cash flow	97.0	-49.7%	107.2	+10.5%	114.9	+7.2%
Net borrowing	-263.8	-18.5%	-323.8	+22.8%	-370.3	+14.4%
NAV	-		-		-	
LFL sales growth %	-		-		-	

Associated British Foods (LSE:ABF)

ABF is a share that I have struggled to warm to in recent years. The only reason I could see for owning the shares is to own a share of its clothing business Primark which I view as a superb business. Primark is very much in tune with a growing number of consumers who are looking for superb value for money when buying clothes and is a trend which possibly has a long way to run. The trouble was that investors were being asked to pay a very large price tag - in excess of 30 times forecast earnings per share - to own a slice of Primark with the drawbacks of owning commoditized businesses such as Sugar and Bread.

These lower quality businesses have diluted many of the attractions of Primark to the extent that ABF's ROCE track record is actually rather modest.



2017 has been a good year for the company. With 60% of its profits earned outside the UK it has been a major beneficiary of the devaluation of the pound which has boosted overseas profits when translated back into sterling.

Trading profits were up by 22% or by 13% in constant currency terms. Excluding the currency effects, much of the profit improvement has come from a big upwards swing in the profitability of the Sugar business which has benefitted from higher EU sugar prices.
The Ingredients business has also performed well whilst Primark - which accounts for just over half ABF's total operating profits - posted a decent result and limited the damage to its profit margins from an increase in clothing costs caused by the weaker pound.

	Revenue		Adjusted operating profit	
	52 weeks ended 16 September 2017 GBPm	53 weeks ended 17 September 2016 GBPm	52 weeks ended 16 September 2017 GBPm	53 weeks ended 17 September 2016 GBPm
Operating segments				
Grocery	3,381	3,097	303	294
Sugar	2,174	1,636	223	35
Agriculture	1,203	1,084	50	58
Ingredients	1,493	1,294	125	93
Retail	7,053	5,949	735	689
Central	-	-	(75)	(60)
	15,304	13,060	1,361	1,109

Primark will remain the main long-term driver of growth for ABF but there are some concerns that its prospects in the key US market have hit something of a bump in the road.

Like-for-like sales overall increased by just 1% despite a strong performance in the UK where Primark gained market share. Some commentators are concerned that Primark is shrinking the size of three of its US stores and that this may be a sign that it has misjudged the potential of this market. Time will tell.

Name	Close	Market Cap. (m)	PE roll 1	fc PE	fc Yield	EBIT yield	Price to NAV
Associated British Foods PLC	£32.18	£25476.1	23.2	23.5	1.4	5.4	3.1

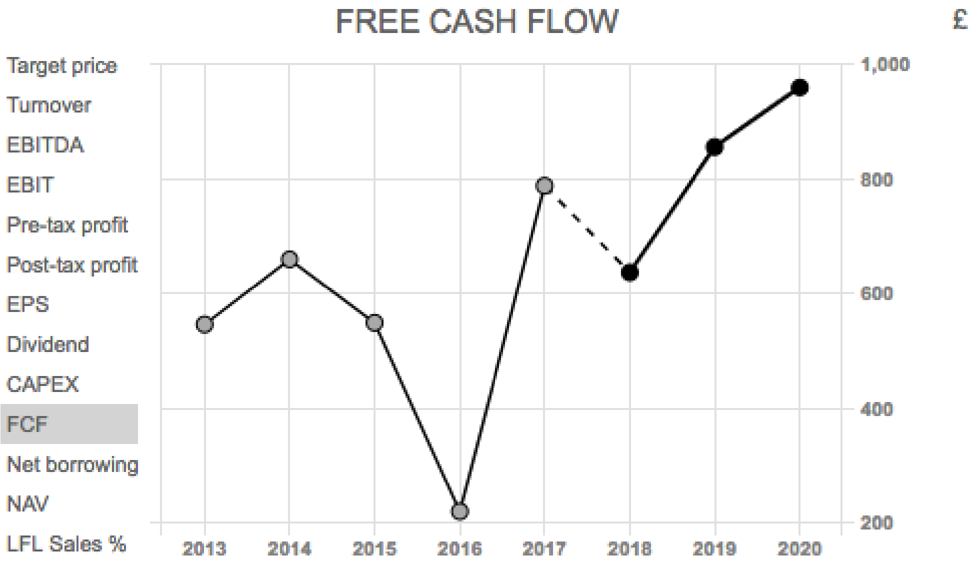
Having added 1.5 million square feet of selling space in 2017, ABF plans to add a further 1.2 million (increasing its total selling space by around 8.6%) in 2018. This means that it should be able to reap the benefits from maturing selling space on its sales and profits for the next couple of years at least.

Associated British Foods PLC (ABF)

FORECASTS

£ millions unless stated

Year	2018		2019		2020	
Turnover	16,288.3	+6.1%	17,416.1	+6.9%	18,659.3	+7.1%
EBITDA	1,976.7	+3.7%	2,137.1	+8.1%	2,430.3	+13.7%
EBIT	1,443.6	+8.1%	1,599.1	+10.8%	1,780.6	+11.3%
Pre-tax profit	1,404.7	+9.6%	1,569.1	+11.7%	1,757.4	+12.0%
Post-tax profit	1,076.4	+19.1%	1,197.6	+11.3%	1,348.3	+12.6%
EPS (p)	136.7	+19.5%	151.5	+10.8%	170.4	+12.5%
Dividend (p)	44.3	+8.0%	49.9	+12.6%	56.3	+12.8%
CAPEX	832.7	-3.9%	885.2	+6.3%	965.3	+9.0%
Free cash flow	638.2	-19.1%	856.5	+34.2%	960.5	+12.1%
Net borrowing	-732.1	+8.8%	-1,170.4	+59.9%	-1,679.4	+43.5%
NAV	-		-		-	
LFL sales growth %	1.7		2.0	+20.0%	2.0	0.0%

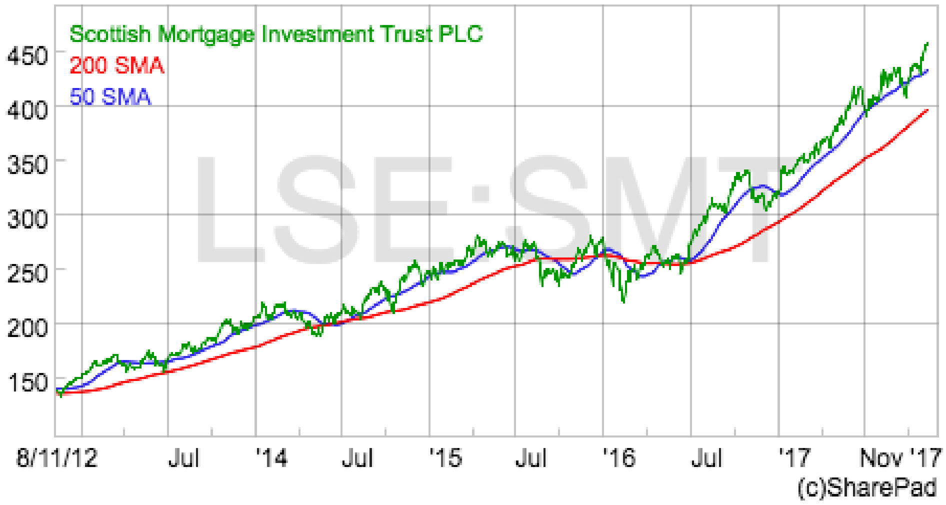


Analysts are forecasting pretty decent rates of profit growth for the next three years with big increases in free cash flow in 2018 and 2019. Note that ABF is forecast to have nearly £1.7bn of net cash by 2020 which could lead to a special dividend or provide firepower for acquisitions.

That said, ABF's valuation is still quite demanding at over 23 times forecast EPS despite being derated over the last couple of years. With Primark still having something to prove in America and the baggage of Sugar and Bread this is too rich for me. Below 20 times PE looks to be a fairer entry point.

Mortgage Investment Trust (LSE:SMT)

Although I tend mainly to invest in individual shares, I am a fan of investment trusts for a couple of reasons. Firstly, they are closed-end funds which means that the fund manager has a source of permanent money to work with and cannot be put off their stride by customer redemptions. Secondly, it can be a cheap way to get exposure to a fund manager who can deliver a lot better performance than a tracker fund.



Scottish Mortgage Investment Trust is one of the most popular and best ITs out there. It has trounced the performance of the FTSE World index by investing in what it sees as the globally dominant companies of the future such as Amazon, Facebook and Tesla. All this for a total ongoing charge of 0.44% per year to boot.

Scottish Mortgage Investment Trust PLC (SMT)

PERFORMANCE 457p 0.5p 0.11%

SMT & NAV

Rolling	2012 to 2013	2013 to 2014	2014 to 2015	2015 to 2016	2016 to 2017
Investment trust	43.4%	20.7%	12.5%	20.1%	41%
NAV	36.2%	16%	12.1%	19.4%	40.6%

Rolling	1Y	3Y	5Y	7Y	10Y
Investment trust	41%	90.4%	229.7%	234.6%	263.9%
NAV	40.6%	88.1%	197.1%	198.9%	218.8%
Investment trust ann.	41%	23.9%	26.9%	18.8%	13.8%
NAV annualised	40.6%	23.4%	24.3%	16.9%	12.3%
Z-score	0.44	1.03	1.27	1.46	1.78

As you can see, this fund is very concentrated with 56% of the fund concentrated into the top ten holdings.

ACTIVITY BREAKDOWN Last updated 31/8/17

Top 10 Holdings | Top 10 Countries | Asset Allocation

Name	Holdings
Amazon.com Inc	8.0%
Tesla Inc	7.3%
Tencent Holdings Ltd	6.7%
Alibaba Group Holding Ltd ADR	6.5%
Illumina Inc	5.7%
Baidu Inc ADR	4.9%
Industria De Diseno Textil SA	4.8%
Facebook Inc A	4.6%
Ferrari NV	3.4%
Alphabet Inc C	3.4%

The manager's conviction has clearly paid off despite owning some very expensive shares.

Name	Close	Market Cap. (m)	PE roll 1	EV/turnover
Alphabet Inc	$1033.33	$717947.4	24.8	7.9
Amazon.com Inc	$1123.17	$541367.9	149.5	4.0
Facebook Inc	$180.25	$523806.5	27.8	18.6
Illumina Inc	$211.74	$30914.0	48.5	13.1
Tesla Inc	$306.05	$51421.6		8.0

Past performance is no guarantee of future success and some might baulk at the kind of shares in this portfolio, but if you wanted to save yourself the hassle of investing in individual overseas shares then this investment trust probably deserves a look.