

## Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users



09 February 2018

### Market Overview

Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
FTSE 100	7143.82	▼-4.03	▼-7.6	▼-1.19	7778.64	7114.36	12/1/18	19/4/17
FTSE 250	19295.5	▼-3.34	▼-7.57	▲3.59	20932.6	18588.6	5/1/18	24/2/17
FTSE SmallCap	5629.97	▼-3.3	▼-6.18	▲6.25	6038.69	5288.34	15/1/18	28/2/17
FTSE AIM 100	5212.48	▼-4.64	▼-5.04	▲20.9	5550.39	4311.75	29/1/18	13/2/17
FTSE All-Share	3927.91	▼-3.89	▼-7.54	▼-0.155	4268.89	3912.58	12/1/18	21/4/17
S&P 500	2581	▼-6.56	▼-6.19	▲11.8	2872.87	2307.87	26/1/18	9/2/17
Brent Oil Spot \$	\$64.255	▼-5.85	▼-7.11	▲15.3	\$70.72	\$44.785	24/1/18	21/6/17
Gold Spot \$ per oz	\$1322.13	▼-0.838	▲0.889	▲7.78	\$1356.22	\$1200.05	24/1/18	9/3/17
GBP/USD - US Dollar per British Pound	1.3967	▼-1.1	▲3.23	▲11.8	1.42661	1.21561	1/2/18	9/3/17
GBP/EUR - Euros per British Pound	1.138	▲0.406	▲0.326	▼-2.94	1.1972	1.0795	18/4/17	29/8/17

### Top FTSE All-Share rises

No.	TIDM	Name	%chg 1w
1	HRG	Hogg Robinson Group PLC	▲47.2
2	NANO	Nanoco Group PLC	▲28
3	CPI	Capita PLC	▲15.8
4	INVP	Investec PLC	▲11.1
5	TNI	Trinity Mirror PLC	▲9.77
6	MOSB	Moss Bros Group PLC	▲9.06
7	RTN	Restaurant Group (The) PLC	▲5.68
8	FOXT	Foxtons Group PLC	▲5.35
9	STOB	Stobart Group Ltd	▲5.2
10	MPO	Macau Property Opportunities ...	▲4.72

### Top FTSE All-Share fallers

No.	TIDM	Name	%chg 1w
1	PFC	Petrofac Ltd	▼-19.9
2	SOPH	Sophos Group PLC	▼-18.8
3	ENQ	EnQuest PLC	▼-18.2
4	NOG	Nostrum Oil & Gas PLC	▼-16.9
5	SNN	Sanne Group PLC	▼-16.4
6	TALK	TalkTalk Telecom Group PLC	▼-15.6
7	RRS	Randgold Resources Ltd	▼-14.5
8	SIA	SOCO International PLC	▼-12.7
9	POG	Petropavlovsk PLC	▼-12.1
10	EMG	Man Group PLC	▼-11.7

Prices at 9am Fri 9th February.

## Don't worry about stock markets, concentrate on businesses instead

This week's stock market moves has led to a lot of chatter and opinion being expressed across the media. Most of it has been of little use to any serious long-term investor.

Put simply, when share prices increase faster than profits for a while don't be surprised to see some kind of balance restored from time to time.

If you are a trader looking to exploit short-term moves in prices then the direction of the stock market will matter to you. If you are a long-term investor then it should not.

There are a lot of permanent stock market bulls out there who will try and tell you that shares always go up in the long run. I am not one of these.

For me, nothing has changed with my investing approach. It remains about buying high quality businesses at reasonable prices and then holding onto them as long as they remain good businesses.

I have not sold any shares this week and have bought a new holding for my portfolio at a much cheaper price than was on offer a few weeks ago. I saw this great tweet retweeted by @timfprice on twitter which I think summed up the behavioural characteristics of the stock market beautifully:



**Cullen Roche**  
@cullenroche

Follow



The stock market is the only market where things go on sale and all the customers run out of the store....

No doubt that there have been many spread betters who have been totally spooked by what has gone on. Making money with leveraged bets in a rising market must feel good but some inexperienced punters will have felt the pain of what it feels like to be on the wrong side of the bet this week. But I have seen plenty of people I follow on Twitter using the market falls to help them buy shares which makes sense to me.

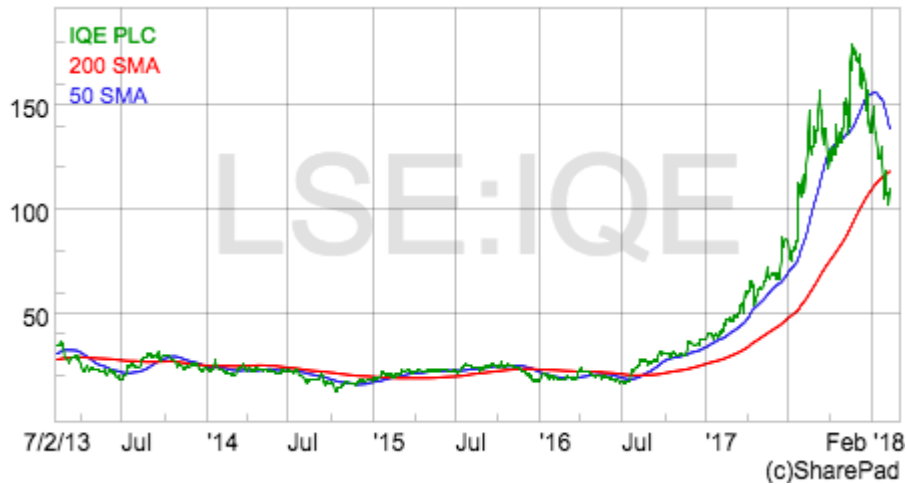
My portfolio is worth less than it was a week ago - it fell less than the market - but both my SIPP and ISA are fully invested. I fully accept that they could take a big hit in the future but these portfolios will be with me for the rest of my life. I have no intention of cashing them in to buy an annuity but hope some day to live off the dividend income that the shares will provide.

I have realised I am not smart enough to dive in and out of markets and have come to rely on keeping my investing as simple as possible and sticking to some rules. The best one is to do nothing but stay vigilant. Another good one is to concentrate on business performance rather than a share price.

Everyday life has many uncertainties and investing in the stock market is part and parcel of that. I am not complacent and keep a close eye on the businesses I am invested in. We are all to some extent reliant on having some luck. My hope is that I have built a portfolio of high quality and growing businesses that will help me out in the years ahead.

## IQE (LSE:IQE)

IQE is a Cardiff-based technology company. It makes wafers that end up in microprocessors made by semiconductor manufacturers.



IQE's products have many applications such as in smartphones (including the iPhone) and sat nav systems as well infrared, photonics (light), solar and power technologies. The company is currently developing technologies that can be used in the next generation of ultra fast processing chips and electric vehicles.

I can see why this is a company that excites investors and why it has been very popular. The company has been investing in new capacity to produce more products and has offered a series of reassuring trading updates saying that sales and orders are growing nicely and that profits will be ahead of expectations.

As you can see from the forecasts below, City analysts are currently expecting an accelerating trend of sales and profits. If these are delivered then you can make a perfectly reasonable case for saying that the shares are not that expensive on a one year forecast rolling PE of 25.6x at a share price of 110p.

## IQE PLC (IQE)

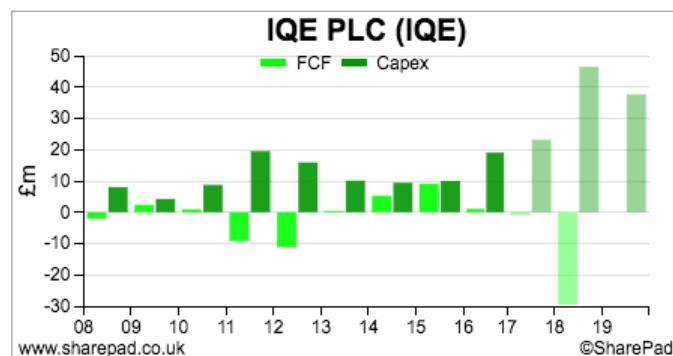
## FORECASTS

£ millions unless stated

Year	2017		2018		2019	
Turnover	150.5	+13.4%	176.3	+17.2%	238.2	+35.1%
EBITDA	35.8	+12.3%	46.4	+29.7%	62.0	+33.5%
EBIT	24.0	+14.5%	31.7	+32.1%	43.4	+37.0%
Pre-tax profit	24.1	+23.9%	32.4	+34.6%	43.8	+35.2%
Post-tax profit	23.8	+20.7%	31.1	+30.6%	40.6	+30.7%
EPS (p)	3.2	+15.5%	4.2	+31.3%	5.3	+26.2%
Dividend (p)	-		-		-	
CAPEX	23.2	+21.7%	46.4	+100.2%	37.7	-18.9%
Free cash flow	-0.9		-29.5	+3177.8%	-	
Net borrowing	-42.4		-36.6	-13.7%	-42.5	+16.3%
NAV	301.7	+57.7%	330.8	+9.6%	395.6	+19.6%

This rosy outlook was put to one side at the end of last week with a stinging attack on the business by short seller Shadowfall. The brief summary of its criticism of IQE, as I saw it, was that the company was undertaking some kind of dodgy business practices with a joint venture company.

It was argued that this was flattering to IQE's free cash flow (making it higher than it really was) and profits and that without it its free cash would look worse than it does already.

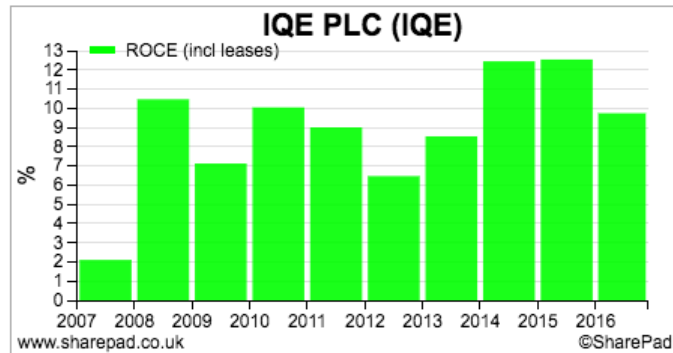


The company has refuted the claims of Shadowfall - as have other shareholders on various bulletin boards - and pointed out that as a short seller it was talking its own book and stood to profit handsomely from any fall in IQE's share price. That said, there are plenty of doubters out there as IQE remains one of the most heavily shorted shares on the London Stock Exchange with 11.6% of its shares out on loan at the time of writing.

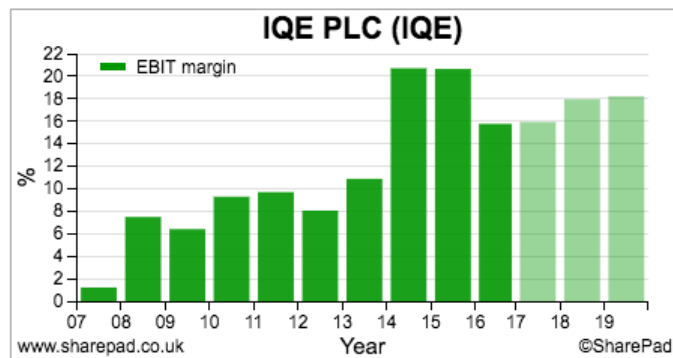
I have not spent the amount of time needed to give a meaningful view on the topics in Shadowfall's report and am not really interested in doing so. What I will say is that it is not unreasonable for people to question whether the use of joint venture companies hides the truth from investors.

Taking a more simplistic approach based on what we can see, there are some simple numbers we can crunch to tell us what kind of company IQE has been in the past.

For me, it has never had the hallmarks of a truly outstanding business. Its ROCE is actually very modest.

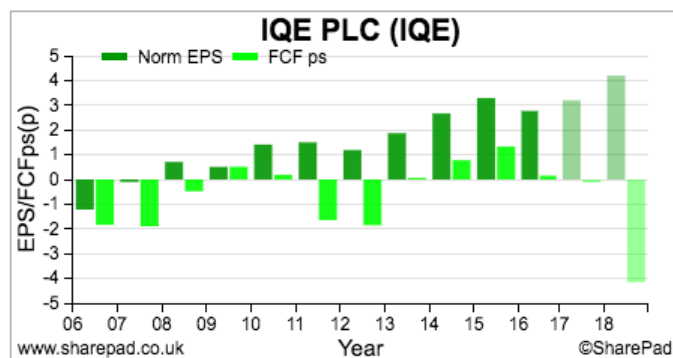


Its profit margins are reasonable, but it is interesting that analysts' forecasts are not predicting much improvement to come from the strong growth in sales.



Its record on turning profits into free cash flow is also very poor which would concern me. I accept that investment is needed to grow sales and profits but investors have to see the cash eventually. Based on current forecasts that is not going to be any time soon.

IQE may have a very rosy future in front of it. That said, it is not a business that I could invest in. It's nothing to do with the numbers - although they don't look particularly attractive - but more to do with the fact that I do not understand its business well enough.



I have no idea what will happen to technology in its business areas or if a competitor will come along with something better. I also have no idea if its customers will bargain away its profits and margins.

IQE is something of a story- and momentum-based share. The upwards share price momentum seen last year seems to have gone whilst the potential story has yet to deliver.

Stagecoach (LSE:SGC)

A few weeks ago I wrote that Stagecoach shares might be worth a punt after the government effectively bailed it out of its problematic East Coast Trains franchise. That was clearly ill-judged of me.



Whilst the company was let off paying over £2bn in fees to the government by being allowed to end the franchise by 2020, it is now clear - as it was a few weeks ago - that Stagecoach is in trouble.

This week, the government said that the franchise would end during the next few months as it was in danger of imminent financial collapse. This will cost Stagecoach around £250m by funding a loan commitment, surrendering a performance bond pledged at the start of the contract and making a further compensation payment. This cost will probably be funded by borrowing and will be added onto existing debts.

Stagecoach Group PLC (SGC)						
FORECASTS			£ millions unless stated			
Year	2018		2019		2020	
Turnover	3,257.6	-17.3%	2,955.8	-9.3%	2,854.8	-3.4%
EBITDA	309.3	-11.1%	304.3	-1.6%	307.5	+1.0%
EBIT	165.4	-10.9%	160.4	-3.0%	157.8	-1.7%
Pre-tax profit	138.6	+0.6%	131.0	-5.5%	120.4	-8.1%
Post-tax profit	115.9	-21.9%	106.8	-7.9%	90.7	-15.0%
EPS (p)	20.2	-21.6%	18.6	-7.9%	16.8	-9.7%
Dividend (p)	11.9	-0.0%	12.0	+0.8%	12.0	0.0%
CAPEX	170.0	-1.9%	164.2	-3.4%	169.6	+3.3%
Free cash flow	-10.8		57.6		63.2	+9.7%
Net borrowing	633.4	+41.9%	641.0	+1.2%	633.7	-1.1%

Stagecoach has suffered severe damage to its reputation as a competent rail franchise operator with the government in my opinion. I think this will make it very difficult for it to award new franchises to the company. Whilst it has a two year extension with its Virgin West Coast franchise out to 2020, I think its chances of retaining this franchise, winning South East and retaining its East Midlands franchise look slim.

This leaves Stagecoach with a profits problem. With its UK and US bus businesses struggling to grow, it is difficult to see where the profits growth comes from with this business.

Profits are falling and this could lead to the dividend coming into question. The shares yield 8.75% at a share price of 135p - a sign that the market thinks that a dividend cut is a real risk. It's hard to disagree.



## BT (LSE:BT.A)

BT is another share where the threat of a dividend cut looks to be increasing. The shares currently offer a forecast dividend yield of 6.6%.



Last week's third quarter results didn't make for great reading with profits down across the board.

Adjusted(1)	Adjusted(1) revenue			Normalised EBITDA			free cash flow(1)		
	2017	2016	Change	2017	2016	Change	2017	2016	Change
Third quarter to 31 December	GBPm	GBPm	%	GBPm	GBPm	%	GBPm	GBPm	%
BT Consumer	1,261	1,262	-	250	260	(4)	114	162	(30)
EE	1,357	1,311	4	259	277	(6)	128	141	(9)
Business and Public Sector	1,125	1,190	(5)	362	393	(8)	317	302	5
Global Services	1,266	1,398	(9)	143	40	258	30	(115)	126
Wholesale and Ventures	506	528	(4)	189	211	(10)	138	151	(9)
Openreach	1,286	1,284	-	641	676	(5)	332	362	(8)
Other	1	2	(50)	(18)	13	(238)	(357)	(397)	10
Intra-group items	(823)	(849)	3	-	-	-	-	-	-
<b>Total</b>	<b>5,979</b>	<b>6,126</b>	<b>(2)</b>	<b>1,826</b>	<b>1,870</b>	<b>(2)</b>	<b>702</b>	<b>606</b>	<b>16</b>

BT shares have been facing three main concerns for some time now. All three could see it producing significantly less free cash flow in the future. The fear is that this could lead to a dividend cut:

1. Having to splash out large sums of cash to retain its share of Premier League football rights. Any significant increase on the £320m per year it is currently paying would be bad news in my opinion.
2. Investing more money in the UK broadband network (Openreach) to increase and improve superfast broadband services. This is a given. BT has been trying to deliver superfast on the cheap by squeezing as much as possible out of old copper networks.
3. Plugging its enormous pension fund deficit. This stands at £9.5bn on an accounting basis but press reports suggest that it could be as big as £14bn on an actuarial basis.

BT's dividend costs around £1.5bn at the moment but analysts' forecasts suggest that there is going to be more than enough free cash flow to pay it for a while.

#### BT Group PLC (BT.A)

FORECASTS		£ millions unless stated				
Year	2018		2019		2020	
Turnover	23,926.1	-0.6%	23,926.9	0.0%	24,015.8	+0.4%
EBITDA	7,468.0	+1.6%	7,559.2	+1.2%	7,632.0	+1.0%
EBIT	3,989.4	+3.9%	4,006.6	+0.4%	4,072.4	+1.6%
Pre-tax profit	3,437.8	+13.3%	3,450.7	+0.4%	3,518.4	+2.0%
Post-tax profit	2,703.1	+7.1%	2,739.5	+1.3%	2,811.0	+2.6%
EPS (p)	27.4	+8.4%	28.0	+2.2%	28.8	+2.9%
Dividend (p)	15.7	+1.9%	16.0	+1.9%	16.3	+1.9%
CAPEX	3,403.4	+8.2%	3,589.1	+5.5%	3,698.2	+3.0%
Free cash flow	2,749.1	+14.1%	2,786.4	+1.4%	2,749.4	-1.3%
Net borrowing	9,923.6	-18.6%	10,729.4	+8.1%	10,903.0	+1.6%

BT itself is guiding towards £2.7bn-£2.9bn of underlying free cash flow for the year ahead. So why is its share price falling and dividend yield rising?

My guess is that although the threats to its free cash flow probably won't be felt for a few years the risks are real.

The results of the Premier League auction should be known next week. If BT retains a decent share of the rights for a similar cost then its cost base will stay high.

BT Sport is not making a profit on a standalone basis and is a very expensive strategy to retain and win broadband customers. Profits at BT's consumer division are not growing.

If it loses the rights its costs will fall from August 2019 but will it lose very profitable broadband customers who have previously signed up to cheap football?

BT is going to spend more on connecting full fibre internet to people's houses (FTTP). This is much more expensive than fibre to the cabinet (FTTC) but BT is facing pressure from the government to increase broadband speeds and increased competition from the likes of City Fibre which is rolling out FTTP across selected UK cities.

BT has closed its final salary pension scheme to further accruals (benefits) for existing employees but the risk is that the cash top ups to plug the deficit will increase. It only paid top up payments of £250m last year as part of a 16 year plan to plug the deficit.

If the pension fund trustees insist on this being plugged faster and the actuarial deficit is as big as £14bn, then plugging this over 10 years could see additional top up payments of £1.4bn per year. Pensions are complicated but in my opinion plugging BT's deficit with extra cash could easily force the dividend to be cut.

BT's shares are looking cheap with a forecast PE of less than 9 but I think this kind of valuation is not really unfair to it. It is selling commoditised, utility products that offer limited growth potential and which come with lots of legacy costs. This means that there's not a lot for investors to get excited about.

## Cranswick (LSE:CWK)

Shares in meat processing company Cranswick have been a very good investment over the last few years.

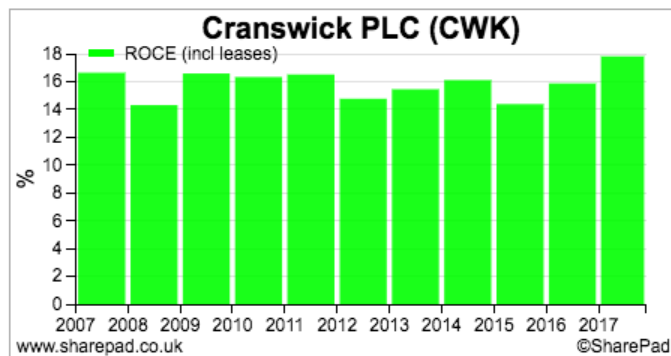


The company has been able to exploit an increasingly popular trend of *premiumisation* amongst consumers. It has been able to sell a lot of posh sausages (such as Tesco Finest) and other pork products and has set about doing the same thing with poultry.

Cranswick is vertically integrated. It buys and rears pigs and chickens which gives it a very strong hold on its supply chain. This is not only beneficial from a competitive and efficiency point of view but also from a provenance and food quality perspective. This is vital when selling premium products.

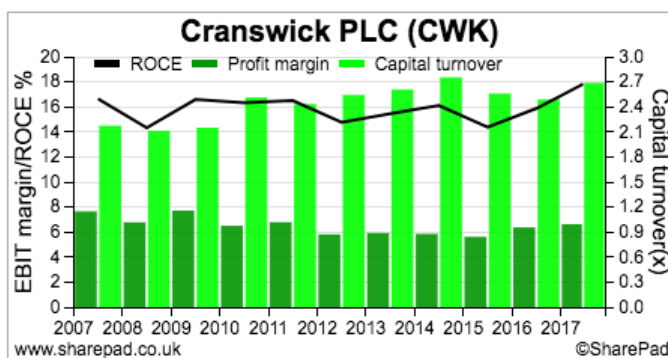
I think Cranswick is a very solid business. Its ROCE has been very consistent and at a decent level.

Cranswick earns these returns on capital by selling lots of products. Its profit margins aren't actually that high - around 6% - but it makes up for this by selling lots of goods per £1 of capital invested (its *capital turnover ratio*).



Current trading in the business is good and slightly ahead of the board's expectations. Sales in the UK are doing well but there is significant growth coming from export markets such as China where there is a very strong growing demand for meat products.

The good news for investors in Cranswick is that the company is investing in new production capacity so that it can keep on growing. This should also help it to become more efficient.



The company's relatively modest profit margins have not held it back so far. However, I do think they are a sign that this a company that does not have a huge amount of pricing power. This is probably the one issue that could put me off buying the shares.

Selling premium products does allow it to charge its customers more but it is selling to food retailers and manufacturers that do have a lot of buying power. This is shown up in the fact that pig prices are falling but the company is having to pass that on in the form of lower selling prices rather than boosting its profit margins.

This company is in a good position with profits expected to keep on growing. Note that capex is expected to be quite high for the next couple of years due to the investment in new production capacity which will mean that free cash flow will be lower than profits.

The shares have been trading water around the £30 mark since the middle of last year after a very strong run. They are not cheap on a rolling one year forecast rolling PE of just over 20 times but this does not look too excessive for a business of proven quality.

Cranswick PLC (CWK)						
FORECASTS						
£ millions unless stated						
Year	2018		2019		2020	
Turnover	1,456.9	+17.0%	1,521.4	+4.4%	1,589.4	+4.5%
EBITDA	122.6	+13.1%	129.2	+5.4%	136.2	+5.4%
EBIT	90.0	+14.3%	94.0	+4.5%	99.6	+5.9%
Pre-tax profit	90.7	+16.2%	94.8	+4.5%	100.1	+5.6%
Post-tax profit	72.9	+16.2%	74.8	+2.6%	78.7	+5.2%
EPS (p)	143.5	+15.3%	150.1	+4.6%	158.4	+5.5%
Dividend (p)	50.8	+15.2%	54.0	+6.3%	57.3	+6.1%
CAPEX	69.3	+47.6%	70.0	+1.0%	55.7	-20.5%
Free cash flow	33.5	-18.2%	42.9	+28.2%	60.5	+41.1%
Net borrowing	5.0	-70.8%	-15.9		-49.7	+213.3%

## Redrow (LSE:RDW)

It's just great being a housebuilder these days. Taxpayers are subsidising a large chunk of the mortgages used by people to buy their houses through the Help to Buy scheme. This means lenders are happy to lend 75% of a new home's value and won't worry too much if it is overpriced or not.



This in turn gives builders a bit of leeway on pricing. Mix issues aside (by that I mean selling bigger, higher quality houses), this to me explains why the price of new build houses is still rising whilst prices for the stock of existing houses have struggled to grow since Help to Buy was removed just over a year ago.

Redrow, along with the vast majority of builders, is making hay from this sustained piece of good fortune. Just under 40% of the homes it sold during the six months to December 2017 benefitted from the Help to Buy scheme. During that time, legal completions of homes increased by 14% and pre-tax profits by 26%. Costs were controlled well but as you can see from the slide below price increases had a significant positive effect.

# Homes Private Turnover Analysis



- Homes private turnover up 19% to £816m
- Private volumes including JV up 15% (298) to 2,339
- Private volumes excluding JV up 9% (176) to 2,174
- Heritage Collection 72% of private turnover (2017: 79%)
- Help to Buy legal completions of 897 (2017: 745)
- Heritage Collection ASP up £25k to £365k

	Turnover (£m)			Volume			ASP (£k)		
	H1 18	H1 17	Var	H1 18	H1 17	Var	H1 18	H1 17	Var
Heritage	586	545	41	1,604	1,605	(1)	365	340	25
Bespoke	230	142	88	570	393	177	404	361	43
Private Total	816	687	129	2,174	1,998	176	375	344	31

The company's Heritage range (72% of private turnover) sold 1% fewer homes but the average selling price increased by 7.4%. Bespoke saw very good volume growth of 45% and average selling price growth of 11.9%.

Some of these price changes will have come from mix improvements but to me they are evidence of how favourable the new build market is right now relative to the second hand market. I think it's difficult to believe that these price increases would be possible if Help to Buy did not exist.

At the moment, Help to Buy is due to end in 2021. The Labour Party manifesto promised to keep it until 2027. I have no doubt that the builders will be extensively lobbying the government to keep this scheme as without it their businesses look as if they will face a very tough time.

Political pressure is also increasing with closer attention being paid to builders' land banks. There have been accusations of land banking - where builders sit on land without developing it and benefit from a rise in its value. I would not be surprised if



there is some land banking going on but Redrow shows that most of its land bank has still to receive planning permission.

A lot of this land is known as strategic land. Land without planning permission is cheaper to buy and can help builders achieve higher profit margins if they can get permission to build on it.

## Land and Planning

### Movement in Forward Land Holdings



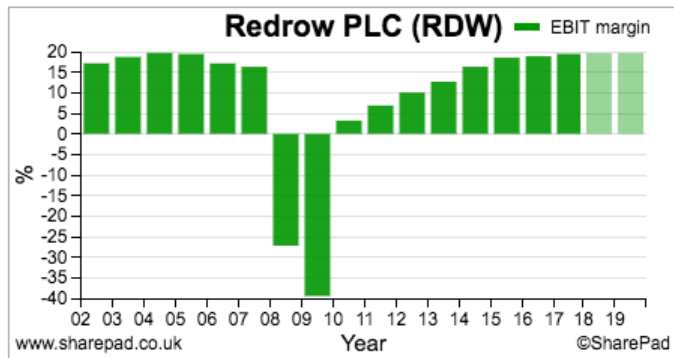
	Total Plots	
At 1 July 2017	26,400	
Additions	5,179	
Transfers to current land	(583)	
Strategic review	804	
At 31 December 2017	31,800	
Analysis	Dec 17	Jun 17
Land owned without planning	3,456	2,820
Land contracted without planning	2,337	1,357
Options - allocations	13,652	11,614
- realistic prospect	12,355	10,609
	31,800	26,400

Builders' profits are essentially geared plays on the cost of their land. Materials and labour costs are seeing some modest inflation but essentially a builder's margins come down to the relationship between the selling price of a house and the plot cost of the land it is built on.

The price paid for the land is based on the expected selling price of houses on it. If selling prices increase then builders' margins can go up. That said, it would be totally unfair to say that profits are all down to house price inflation as land buyers do a good job in locking in returns by trying to pay the right price for land.

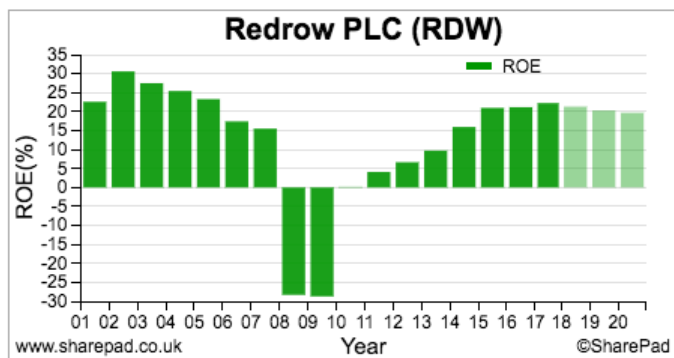


The problems occur when selling prices start to fall. Margins can collapse and so can profits and return on equity. If we look at the history of Redrow's profit margins and return on equity you can see that they are cyclical and crashed when the housing market hit the skids in 2008/09. The direction of house prices and margins tend to go hand in hand.



If we look at analysts' forecasts, they are predicting that margins are not expected to improve and that ROE will start to decline slightly.

The point I cannot stress highly enough is that builders are operating in a heavily subsidised market with house price increases on new builds supported by Help to Buy. How long will this taxpayer subsidy continue to support selling prices and profits?



As far as analysts are concerned, the good times are expected to roll for at least the next few years. Plenty of people have been predicting a house price crash for years and make very reasonable arguments as to why this might happen - mainly due to the fact that affordability is low.

I'm not going to do that but hold the view that businesses such as Redrow and other builders are very risky. When the market turns downwards profits and share prices can and do fall very quickly.

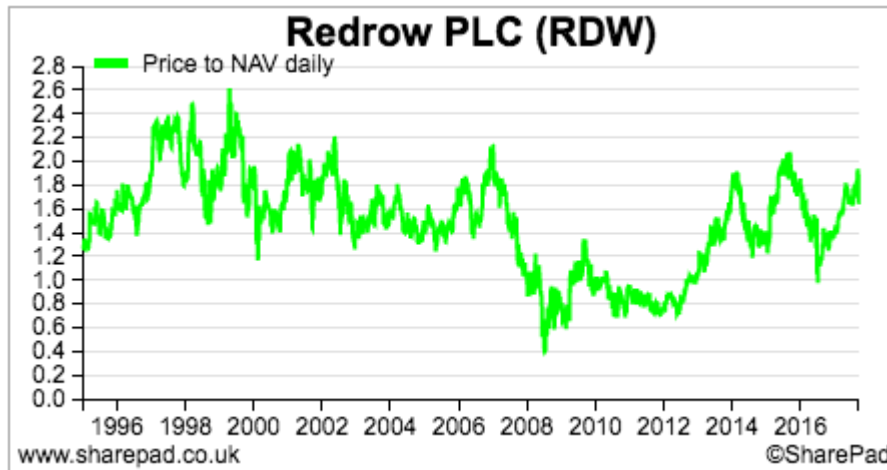
## Redrow PLC (RDW)

## FORECASTS

£ millions unless stated

Year	2018		2019		2020	
Turnover	1,820.6	+9.7%	1,982.3	+8.9%	2,184.5	+10.2%
EBITDA	359.9	+10.7%	392.9	+9.2%	432.2	+10.0%
EBIT	357.5	+10.7%	390.2	+9.1%	429.7	+10.1%
Pre-tax profit	352.7	+12.0%	386.4	+9.5%	424.7	+9.9%
Post-tax profit	283.3	+12.0%	309.5	+9.2%	342.5	+10.7%
EPS (p)	78.1	+11.6%	85.7	+9.7%	94.9	+10.7%
Dividend (p)	22.2	+30.6%	26.2	+18.0%	31.3	+19.5%
CAPEX	1.8	+75.0%	1.8	0.0%	1.8	0.0%
Free cash flow	400.0	+215.0%	597.0	+49.2%	618.0	+3.5%
Net borrowing	53.0	-27.4%	0.3	-99.5%	-66.5	
NAV	1,424.6	+15.4%	1,629.3	+14.4%	1,849.1	+13.5%

At a share price of 626p, Redrow has a market capitalisation of £2,315m compared with a forecast net asset value (NAV) of £1,424.6m. This puts the shares on a forecast P/NAV of 1.6 times. The forecast rolling PE is 7.6 times and the forecast yield is 3.5%.



The PE can lead inexperienced investors to think that the shares are very cheap. History tells us that the high levels of business risk and massive gearing to house prices warrants a lowish multiple.

## Belvoir Lettings (AIM:BLV)

If you are trawling the smaller companies universe looking for decent income-paying shares then property lettings business Belvoir Lettings may well have popped up on your screen. At 100p, the shares currently offer a prospective yield of 6.9%.



Lettings agencies has been nice businesses to own over the last decade or so. There have been plenty of buy to let landlords who have been only too happy to hand over the management of their properties to somebody else - in return for a fee of course.

Agents like the business too as there is a regular flow of income compared with the more volatile fee income that comes from selling properties. These businesses therefore tend to be more valuable in my experience. When my in-laws retired a few years ago they could not find any buyers for their estate agency business but they were able to sell their lettings agency.

One thing that I think is very attractive about Belvoir is that it is a franchising business. It allows letting agents to use its brands, marketing and business support systems in return for a royalty fee which is based on a percentage of the letting agents' turnover.

Franchisors can be very attractive businesses and investments. This is because they get rid of many of the costs of running a business - these are borne by the franchisee - but get a steady and reasonably reliable royalty stream in return.

This tends to lead to very high profit margins. Belvoir has profit margins of 31%. Other franchise businesses such as Domino's Pizza (LSE:DOM), and Inter-Continental Hotels (LSE:IHG) also have very high profit margins.

Life is set to get harder for letting agents from next year when tenant fees are banned. This will remove a very lucrative income stream. Belvoir is looking to use this development as a way of snapping up more franchisees or encourage its existing ones to snap up other agency businesses.

This could allow Belvoir to increase its annual royalty income and at least maintain its dividend per share.

Current trading is holding up reasonably well as Belvoir has benefitted from recent acquisitions and taking on new franchise owners. Managed properties across its franchisees have increased to 58,000 from 55,756 a year ago. Profits are therefore expected to be in line with expectations.

Belvoir Lettings PLC (BLV)						
FORECASTS						
£ millions unless stated						
Year	2017		2018		2019	
Turnover	11.0	+10.7%	13.3	+20.9%	14.6	+9.8%
EBITDA	4.6	+24.5%	5.7	+23.9%	6.5	+14.0%
EBIT	3.9	+25.7%	4.8	+23.1%	5.6	+16.7%
Pre-tax profit	-		-		-	
Post-tax profit	3.9	+50.9%	4.5	+15.4%	5.1	+13.3%
EPS (p)	10.5	+35.3%	12.0	+14.3%	12.7	+5.8%
Dividend (p)	6.9	+1.5%	7.0	+1.4%	7.1	+1.4%
CAPEX	0.1	+25.0%	0.1	0.0%	0.1	0.0%
Free cash flow	-		-		-	
Net borrowing	5.4	+0.5%	3.6	-33.3%	1.2	-66.7%

It may be more difficult to make money from lettings in the future but I think Belvoir's dividend looks reasonably safe. I don't think investors will see a lot of share price appreciation from its shares but the dividend income is attractive in my view.