Phil Oakley's Weekly Roundup

Exclusively for SharePad and ShareScope users

23 March 2018

Market Overview

Name	Price	%chg 1w	%chg 1m	%chg 1y	1y high	1y low	Date 1y high	Date 1y low
FTSE 100	6952.59	▼-2.62	▼-4.13	▼-5.08	7778.64	6952.59	12/1/18	22/3/18
FTSE 250	19393.9	▼-2.19	▼-1.73	▲2.98	20932.6	18832.9	5/1/18	22/3/17
FTSE SmallCap	5618.38	▼-2.39	▼-1.62	▲4.8	6038.69	5355.72	15/1/18	27/3/17
FTSE AIM 100	5329.34	▼-3.13	▼-1.1	▲19.8	5550.39	4447.2	29/1/18	22/3/17
FTSE All-Share	3846.88	▼-2.54	▼-3.64	▼-3.45	4268.89	3846.88	12/1/18	22/3/18
S&P 500	2677.95	▼-2.53	▼-0.962	▲14	2872.87	2328.95	26/1/18	13/4/17
Brent Oil Spot $	$69.005	▲6.1	▲4.21	▲36	$70.72	$44.785	24/1/18	21/6/17
Gold Spot $ per oz	$1326.33	▲0.79	▼-0.321	▲6.44	$1356.22	$1210.35	24/1/18	7/7/17
GBP/USD - US Dollar per British Pound	1.41049	▲1.21	▲1.1	▲13.1	1.42661	1.23745	1/2/18	7/4/17
GBP/EUR - Euros per British Pound	1.1461	▲1.19	▲1.25	▼-0.848	1.1972	1.0795	18/4/17	29/8/17

Top FTSE All-Share risers

No.	TIDM	Name	%chg 1w
1	NXG	NEX Group PLC	▲34.2
2	FENR	Fenner PLC	▲30.3
3	HMSO	Hammerson PLC	▲27.8
4	IRV	Interserve PLC	▲12.8
5	XAR	Xaar PLC	▲12.8
6	WPCT	Woodford Patient Capital Trust...	▲9.44
7	PFC	Petrofac Ltd	▲7.34
8	BMY	Bloomsbury Publishing PLC	▲6.76
9	ENQ	EnQuest PLC	▲6.69
10	ASIT	Aberforth Split Level Income Tr...	▲6.52

Top FTSE All-Share fallers

No.	TIDM	Name	%chg 1w
1	MCRO	Micro Focus International PLC	▼-52.5
2	CPR	Carpetright PLC	▼-31
3	PFG	Provident Financial PLC	▼-28.7
4	DLAR	De La Rue PLC	▼-23.4
5	MOSB	Moss Bros Group PLC	▼-20.9
6	TED	Ted Baker PLC	▼-17.6
7	KGF	Kingfisher PLC	▼-16.4
8	DEB	Debenhams PLC	▼-16.4
9	ALM	Allied Minds PLC	▼-13.6
10	KNOS	Kainos Group Ltd	▼-13.4

Finsbury Food (LSE:FIF)

Share price: 117p

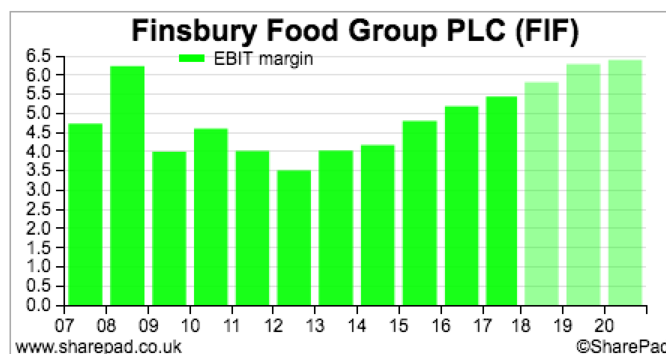
Mkt Cap: £152m

EMS: 5,000

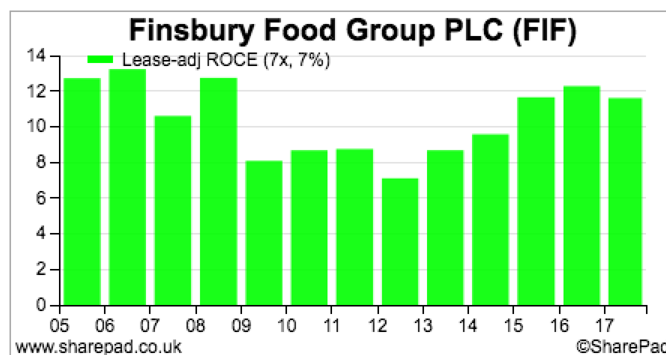
Analysts: 3

Finsbury Food is a specialist maker of bread and cakes for UK supermarkets and foodservice companies. The company also has a portfolio of licensed bread and cake brands such as Vogel's seeded bread, celebration cakes (such as Disney characters) as well as making products sold under the Thorntons and Weight Watchers brands.

It also has a business in Europe - mainly in France - where it sells some of its own products made in the UK as well as products from third parties.



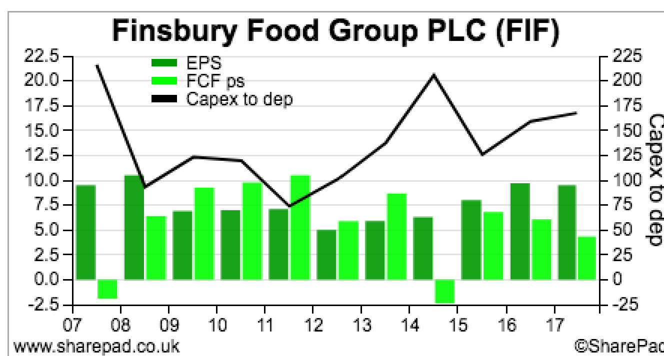
The market for bread and cakes in the UK is very mature and is not growing - it is shrinking slightly in terms of the number of products sold. Given this backdrop, Finsbury is trying to carve out a profitable niche for itself in premium segments of the market which are growing. The move into Europe is also intended to give the company a way of growing its sales and profits.



A quick glance at some key measures of financial performance suggests that Finsbury is a solid rather than a very good business.

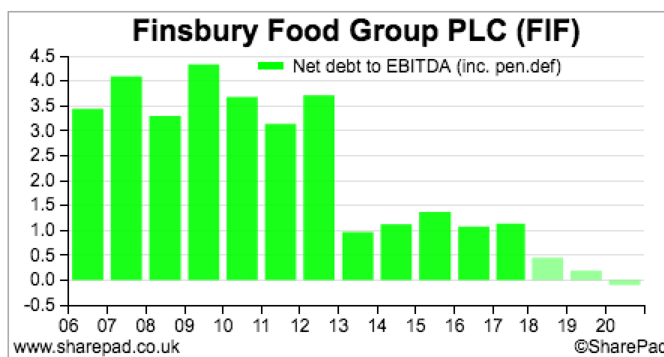
Profit margins are not very high but are on an upwards trend.

Return on capital employed (ROCE) is not too bad at just under 12%. Note that it has trended up and down over time. It is also below my high quality threshold of 15% but on this basis seems to be a reasonable business.



Free cash flow conversion has been patchy but is not terrible by any means given that capex has been significantly higher than depreciation in recent years.

The company has a sound financial position. Net debt to EBITDA (including the pension deficit) has come down significantly in recent years and could now be considered to be at a very comfortable level. Fixed charge cover in 2017 was 3.8 times which is very reassuring.



Finsbury's main problem is that it is finding it hard to grow. It is facing up to a number of challenges such as competition and rising ingredient and labour costs. The company has closed two of its bakeries recently (incurring exceptional costs of nearly £10m in doing so) and is having a bit of a hard time.

Half year results announced this week saw its core UK bakery business increase sales by just 1.1%. However, if the sales from the two bakeries being closed are excluded, the rate of underlying sales growth improved to 3.2%. Cost pressures saw margins and operating profits fall slightly.

UK Bakery

	H1 2017 £m	H1 2016 £m	Movement
Revenue	140.5	139.0	+1.1%
Operating profit	7.3	7.4	-0.7%
Operating margin	5.2%	5.3%	

Going forward, I think there is some scope for profits and margins to improve in the UK business. Its Grain D'Or bakery in London was closed in December 2017 and had been losing money. A small bakery in Scotland was also closed in October 2017. These closures will make the business more efficient and should help improve profit margins.

I am less confident in the management's hopes to increase selling prices. This is because it is selling its products to big supermarkets which have significant buying power and will be reluctant to pay more.

Overseas

	H1 2017 £m	H1 2016 £m	Growth
Revenue	17.3	17.6	-2.1%
Operating profit	1.2	1.0	24.2%
Operating margin	7.0%	5.5%	

Profits were up nicely in the European business although it remains a small contributor to overall company profits. The decline in the value of the pound against the Euro was helpful in boosting translated sales but there was still no growth overall. The explanation for the profit increase was not given in the press release but my guess is that it was due to lower costs and/or a more profitable mix of sales.

The other notable takeaway from the results was a marked improvement in cash generation. This was due to better control of working capital and slightly lower capex. Free cash flow improved from £1.0m a year earlier to £5.7m and contributed to a useful £4m reduction in net debt.

Consolidated Cash Flow Statement (unaudited)

	Note	**Unaudited 26 weeks ended 30 December 2017 £000**	Unaudited 26 weeks ended 31 December 2016 £000	Audited 52 weeks ended 1 July 2017 £'000
Cash flows from operating activities				
(Loss)/profit after taxation for the period		**(1,300)**	6,587	10,057
Adjustments for:				
Taxation		**81**	1,758	2,959
Finance expenses	5	**320**	(28)	526
Share of losses of associates after tax		**11**	15	22
Depreciation		**3,694**	3,363	6,948
Amortisation of intangibles		**269**	268	537
Significant non-recurring expenses		**9,683**	-	4,000
Movement in fair value foreign exchange contracts		**(88)**	(13)	71
Contributions by employer to pension scheme		**-**	-	(200)
Operating profit before changes in working capital		**12,670**	11,950	24,920
Changes in working capital				
Increase in inventories		**(574)**	(2,273)	(39)
Increase in trade and other receivables		**(343)**	47	153
Increase in trade and other payables		**918**	(1,590)	(2,566)
Cash generated from operations		**12,671**	8,134	22,468
Interest paid		**(323)**	(439)	(892)
Corporation taxes paid		**(1,789)**	(1,336)	(2,650)
Net cash generated from operating activities		**10,559**	6,359	18,926
Cash flows from investing activities				
Purchase of property, plant & equipment		**(4,874)**	(5,325)	(12,542)
Costs associated with closure of operations		**(2,425)**	-	-
Investment in Associate		**-**	-	(80)
Net cash used in investing activities		**(7,299)**	(5,325)	(12,622)
Cash flows from financing activities				
Repayment of bank loans		**(1,468)**	(1,468)	(2,937)
Drawdown of revolving credit		**2,500**	5,000	-
(Repayment)/drawdown of invoice discounting		**(749)**	(373)	822
(Repayment) of asset finance facilities		**(33)**	(95)	(133)
Options exercised		**85**	-	177
Non-controlling interest dividend paid		**-**	-	(705)
Dividend paid to shareholder		**(2,553)**	(2,375)	(3,645)
Net cash (out)/in from financing activities		**(2,218)**	689	(6,421)
Net increase/(decrease) in cash and cash equivalents		**1,042**	1,723	(117)
Opening cash and cash equivalents		**3,024**	3,024	3,024
Effect of exchange rate fluctuation		**40**	30	117
Cash and cash equivalents at end of the period		**4,106**	4,777	3,024

The outlook statement was very cautious and cited a number of cost pressures. Consensus EPS forecasts are for 9.8p compared with 9.5p in 2017 - implying growth of 3.2%. Diluted EPS increased by 4.3% during the first half of the year to 4.8p and would need to grow by 2% in the second half to hit analysts' estimates. I think it should be able to do that.

2019 forecasts are currently for declining sales but a 10.7% increase in EPS. There should be a reduction in costs from the two bakery closures mentioned earlier whilst the movement of production to other sites should improve capacity utilisation at existing bakeries. The forecasts for margin improvement therefore look sensible and realistic.

Finsbury Food Group PLC (FIF)

FORECASTS — £ millions unless stated

Year	2018		2019		2020	
Turnover	306.2	-2.6%	301.8	-1.5%	308.0	+2.1%
EBITDA	25.9	+5.5%	27.3	+5.3%	28.0	+2.6%
EBIT	17.8	+4.2%	19.0	+6.6%	19.7	+3.9%
Pre-tax profit	17.5	+2.8%	18.8	+7.2%	19.6	+4.2%
Post-tax profit	12.9	-1.1%	13.9	+8.0%	14.3	+3.0%
EPS (p)	9.8	-1.5%	10.7	+9.2%	11.2	+4.7%
Dividend (p)	3.3	+10.0%	3.6	+9.1%	3.8	+5.6%
CAPEX	9.7	-22.4%	8.1	-16.4%	8.3	+2.1%
Free cash flow	11.3	+99.0%	13.7	+21.2%	14.7	+7.3%
Net borrowing	11.7	-32.6%	5.2	-55.8%	-2.8	
NAV	110.5	+7.2%	116.3	+5.2%	117.6	+1.1%

The shares are not particularly expensive on a one year forecast rolling PE of just over 11 times. The dividend yield of 2.8% is nothing to shout about but dividend growth is currently at 10%.

Bellway (LSE:BWY)

Share price: 3155p

Mkt Cap: £3.9bn

EMS: 750

Analysts: 16

Life remains good for the country's housebuilders despite the market for second hand homes seemingly stuck in a rut. The government's Help to Buy scheme has undoubtedly made it easier for builders to sell new homes at attractive prices and keep on increasing their profits at a very healthy rate.

This was borne out in Bellway's half year results released on Tuesday this week. Revenues were up 15.3%, operating profits were up by 16.5% and the interim dividend per share increased by 28%. 39% of Bellway's sales were under the Help to Buy scheme compared with 35% a year ago.

	Homes sold (number)						Average selling price (£000)					
	Private		Social		Total		Private		Social		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
North	**1,857**	1,846	**474**	371	**2,331**	2,217	**255.9**	223.7	**94.3**	101.0	**223.0**	203.2
South	**1,911**	1,697	**499**	548	**2,410**	2,245	**373.0**	365.2	**151.6**	132.7	**327.2**	308.4
Group	**3,768**	3,543	**973**	919	**4,741**	4,462	**315.3**	291.5	**123.7**	119.9	**275.9**	256.1

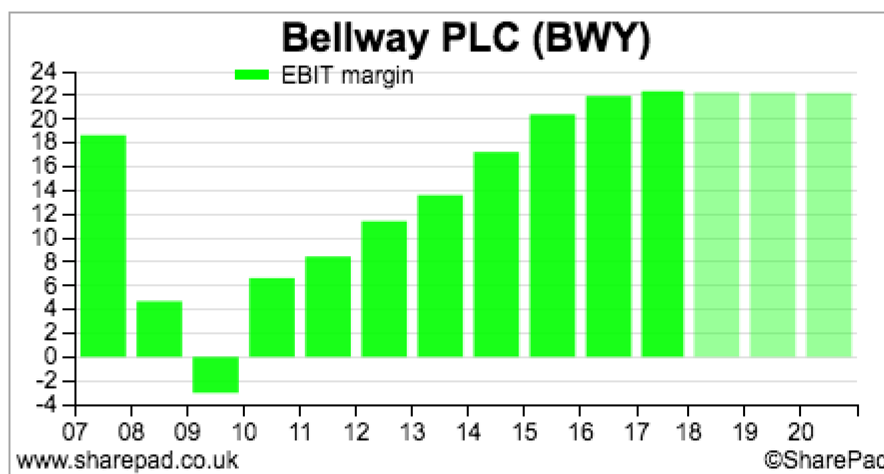
Taking a closer look at its performance, private home sales volumes - the key driver of profitability - increased by 6.3% to 3,768 with average selling prices (ASPs) increasing by 8.2% to £315,300. There has been a big difference in the volume and selling price trade-off between the company's operations in the north and south of the country.

Volume growth in the north was virtually zero but ASPs jumped by 14.3%. In the south, volumes increased by 12.6% but ASPs only increased by 2.1% as the company concentrated on selling more affordable homes in and around London.

As I've written in previous analyses of builders, the key to profitability is buying the right land at the right price. When they are buying land, builders work backwards from the current selling price of homes and tend to target at least a 20% gross margin after factoring in build costs when pricing

up sites. If actual selling prices increase by the time the homes are actually sold, the builder gets a nice boost to margins.

This, to me, explains why profit margins have increased so rapidly since house prices started rising again after the introduction of Help to Buy in April 2013.



The company said that higher than expected selling prices are still helping gross margins to increase:

"The gross margin has risen by 10 basis points to 25.9% (2017 – 25.8%), positively affected by investment in good quality land opportunities. ***In addition, it has been augmented by rising house prices over the past few years and, accordingly, the gross margin achieved is slightly higher than that expected from newly acquired sites, appraised on selling prices at the time of acquisition."***

Going forward, I think it is going to be harder for Bellway and other builders to increase profit margins. Competition for sites in the kind of desirable locations that Bellway targets is increasing. That said, the company has bought 6,726 plots during the first half of its financial year with an average gross margin of more than 24% at current selling prices.

The relationship between selling prices and profit margins is arguably the most important thing to understand for any investor in a housebuilding company. Rising house prices tend to boost profit margins but the same process can work in reverse when house prices fall. My view is that without Help to Buy, builders would not have been able to sell as many houses for the prices they have achieved and are now too reliant on this subsidised mortgage scheme.

House prices will probably fall in the future but predicting when is a futile exercise. My gut feeling is that house price inflation in the new build market will have to slow down as they have been increasing much faster than people's wages in recent years. Builders can offset any slowdown to

an extent by changing their sales mix towards more expensive houses, provided that the local demand for them exists.

One thing is for certain, Bellway's profitability as measured by its return on capital employed (ROCE) is very impressive.

	31 January 2018			31 January 2017		
	Capital employed £m	Land creditors £m	Capital employed including land creditors £m	Capital employed £m	Land creditors £m	Capital employed including land creditors £m
Operating profit	294.2		294.2	252.6		252.6
Capital employed/land creditors:						
Opening	2,191.3	366.8	2,558.1	1,867.0	304.2	2,171.2
Half year	2,455.3	367.3	2,822.6	2,152.4	301.7	2,454.1
Average	2,323.3	367.1	2,690.4	2,009.7	303.0	2,312.7
Annualised return on capital employed	25.3%		21.9%	25.1%		21.8%

It is good to see that Bellway has openly disclosed the issue of land creditors when calculating its ROCE. Land creditors are not classified as debt on a company's balance sheet but in reality they are and Bellway rightly adjusts its capital employed and ROCE calculation to take this into account. Most businesses would be very happy with a ROCE of 21.9%.

I think Bellway is undoubtedly in a very good place right now and it should have no problem in meeting analysts' forecasts for 2018 in my view. Reservation rates across its sites remain good and are better than a year ago. The forward order book is also very strong.

Bellway Order Book	2018	2017	% change
Value (£m)	1,524.9	1,415.4	+7.7
Homes	5,485	5,465	+0.4
ASP (£k)	278	259	+7.3

Bellway has said that it should sell more than 10,000 homes for the first time ever in the year to July 2018. What's interesting about this order book is that the increase in its value is driven almost entirely by higher ASPs with the number of homes broadly unchanged.

If we look at the outstanding land bank then the company has plenty of capacity to keep growing - just under four years' supply at current build rates - but can it rely on higher ASPs to meet profit forecasts in 2019 and 2020?

	31 January 2018	31 January 2017	31 July 2017
Owned and controlled plots	**39,994**	37,931	37,855
Comprising:-			
DPP: plots with implementable detailed planning permission	26,294	26,331	25,655
Pipeline: plots pending an implementable DPP	13,700	11,600	12,200
Joint ventures owned and controlled plots with DPP	**244**	286	268
Strategic plots with a positive planning status	**>6,850**	>5,650	>6,900

Forecasts for sales growth for 2019 and 2020 are 6% and 7.5% respectively. Whether this will be achieved depends - as always - on the mix between volumes and selling prices and the types of homes built and sold. If selling price inflation remains helpful then these forecasts look safe. Flat or falling ASPs remain a risk as always.

The company could also pursue a volume strategy and grow by building more houses as well. It looks as if it is doing so given its intention to open new divisions “in areas with high demand”. This could prove to be a smarter strategy in a market where prices must surely pause for breath sooner or later.

Bellway PLC (BWY)

FORECASTS — £ millions unless stated

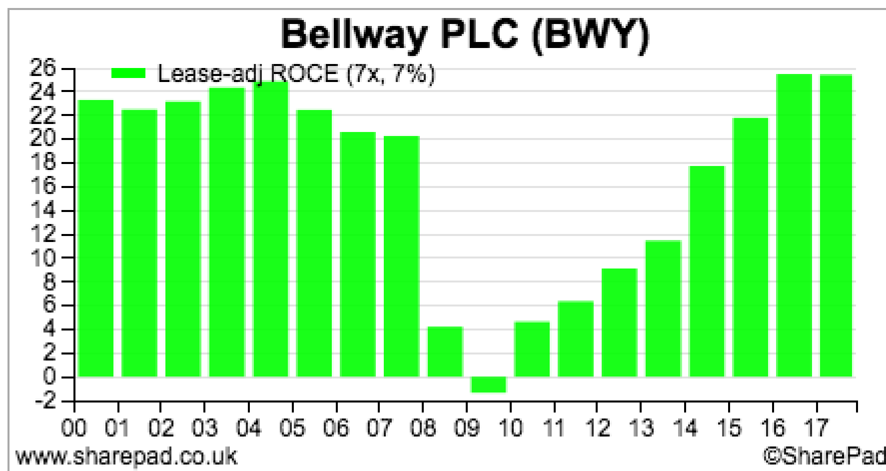
Year	2018		2019		2020	
Turnover	2,888.3	+12.9%	3,061.7	+6.0%	3,291.6	+7.5%
EBITDA	649.4	+13.0%	686.4	+5.7%	737.2	+7.4%
EBIT	645.5	+12.9%	682.2	+5.7%	733.5	+7.5%
Pre-tax profit	637.6	+13.7%	675.8	+6.0%	725.7	+7.4%
Post-tax profit	510.0	+12.4%	545.9	+7.0%	591.5	+8.3%
EPS (p)	419.0	+13.6%	443.1	+5.8%	479.3	+8.2%
Dividend (p)	140.8	+15.4%	144.9	+2.9%	158.0	+9.0%
CAPEX	2.5	+16.4%	3.1	+25.7%	3.3	+7.1%
Free cash flow	193.2	+27.8%	271.0	+40.3%	299.1	+10.4%
Net borrowing	-45.4	+184.6%	-154.3	+239.6%	-263.9	+71.0%
NAV	2,063.1	-5.9%	2,369.2	+14.8%	2,699.0	+13.9%

At 3,141p, Bellway shares trade on a rolling one year forecast PE of 7.3% and offer a forecast dividend yield of 4.3%. For non-cyclical companies that would be very attractive given the expected growth in profits.

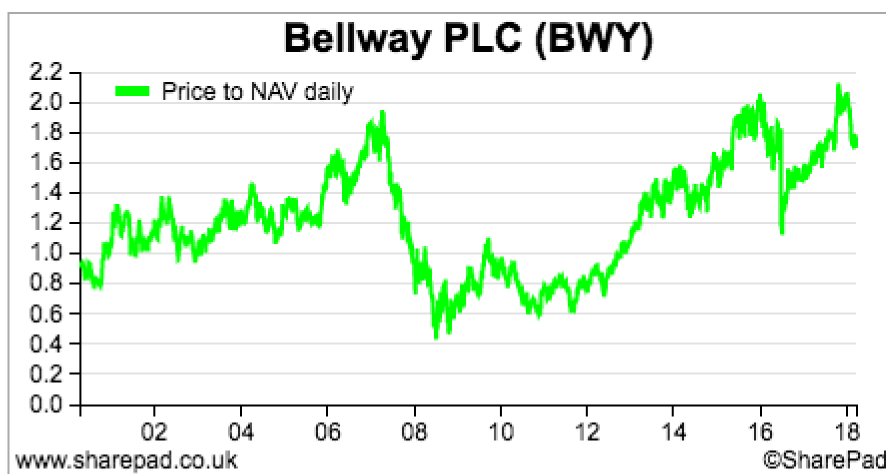
The current price to net asset value (NAV) is 1.66 times. The current annualised return on equity (ROE) is just over 20%. If we assume that shareholders in Bellway would be happy to receive a 10% return on their equity then the shares could command a P/NAV ratio of two times (20% ROE divided by 10% required return) if the current ROE was sustainable.

History suggests that it is not but it’s impossible to know when the tide will turn.

Looking at Bellway's ROCE - a better measure than ROE as it is not distorted by tax rates or gearing levels - it now appears to be at or close to a cyclical peak.



Its P/NAV ratio has fallen back from its cyclical peak but doesn't suggest that now is great time to buy the shares.



SCS (LSE:SCS)

Share price: 208p

Mkt Cap: £82m

EMS: 2,000

No of analysts: 2

Struggling retail chains are constantly in the news at the moment, but SCS's half year results prove that some companies are managing to keep their heads above water.

When I last looked at this company back in October 2017, I commented that it was not a business which particularly grabbed me but I thought that the shares looked cheap at 170p especially with a prospective dividend yield of 8.8%, £40m of cash in the bank and no debts on the balance sheet (but lots off it).

Since then the shares have performed very well, but the company is very honest about how tough it is to make a living from 101 out of town retail locations and 27 House of Fraser concessions. Revenue increased by 1.8% and the company made a very small operating profit of £0.3m compared with an operating loss of £2.65m a year earlier.

The company's results statement is a very interesting read with lots of useful information to improve investors' understanding of the business. Whilst the company has delivered a useful improvement in half year profit, a closer look under the bonnet suggests that the underlying business is running hard to stand still.

The gross sales from SCS's own stores are showing a small amount of growth but the House of Fraser concessions are struggling. The sales breakdown is as follows:

- An increase in upholstered furniture sales in ScS stores of 2.0% to £130.1m (2017: £127.6m);
- An increase in flooring sales in ScS stores of 5.7% to £21.3m (2017: £20.1m);
- An increase in online sales of 11.3% to £6.0m (2017: £5.4m), and
- A decrease in sales from the House of Fraser concession of 14.2% to £11.0m (2017: £12.8m).

The sales growth is coming from five new stores that have been open since September 2016 with the remaining stores seeing sales decline slightly.

On the profit side, the £2.9m of extra operating profit looks like a good performance at first glance but can be put down to the following:

- A £1.2m improvement in EBITDA from the new stores. Most of this EBITDA will convert into extra operating profit as the incremental depreciation is quite small.
- A £1.4m decrease in marketing expenditure. This is purely a timing issue and the saving is likely to be spent in the second half of the year.
- Slightly better gross margins on some products that will be offset in the second half by lower gross margins on value sofas.
- £0.26m lower cost of interest free credit.

Given the recent poor weather which has led to order intake falling by 5.3% during the first seven weeks of the second half of its financial year, it is not surprising that management has confirmed that year to date trading is in line with its expectations (whatever they might be).

I would not expect analysts' profit forecasts to move at the moment, especially as the key Easter and May Day bank holiday selling periods have yet to pass. SCS is a very seasonal business with most of its profits coming between January and July when sales are higher and marketing expenditure is lower.

Whilst the new stores seem to be performing reasonably well, the weakness in the existing store base and the HOF concessions suggests that there could be more downside risk to forecasts than upside.

SCS Group PLC (SCS)

FORECASTS — £ millions unless stated

Year	2018		2019		2020	
Turnover	349.3	+4.9%	360.2	+3.1%	370.3	+2.8%
EBITDA	17.6	+0.9%	18.1	+2.8%	18.5	+2.5%
EBIT	12.0	+0.1%	12.3	+2.5%	12.4	+1.2%
Pre-tax profit	12.0	+0.3%	12.3	+2.5%	12.4	+1.2%
Post-tax profit	9.4	+0.5%	9.7	+2.1%	9.8	+1.6%
EPS (p)	22.9	0.0%	23.5	+2.6%	23.8	+1.3%
Dividend (p)	14.9	+1.4%	15.1	+1.3%	15.3	+1.3%
CAPEX	4.5	-13.5%	4.8	+5.6%	4.8	0.0%
Free cash flow	10.4	-56.0%	11.8	+13.5%	12.1	+2.5%
Net borrowing	-44.1	+10.0%	-49.5	+12.1%	-55.1	+11.3%
NAV	-		-		-	
Like for like sales growth %	-2.5		-		1.0	

Despite having very thin profit margins, the real strength of SCS's business model is its cash generation which comes from having negative working capital requirements. Put simply, its customers pay for their goods in advance and before SCS has to pay its suppliers. This is explained very neatly in the results announcement.

The negative working capital occurs for the following reasons:

- For cash/card sales, customers pay deposits at the point of order and settle outstanding balances before delivery;
- For consumer credit sales, the loan provider pays ScS approximately seven days after delivery, and
- The majority of product suppliers are paid at the end of the month following the month of delivery into the distribution centres.

As you can see below, during the seasonally weaker first half of its financial year virtually all of SCS's operating cash flow comes from the changes in trade and other payables. In 2017, 40% of its full year operating cash flow did.

ScS Group plc

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited 26 weeks ended 27 January 2018	Unaudited 26 weeks ended 28 January 2017	Audited 52 weeks ended 29 July 2017
Cash flows from operating activities	£'000	£'000	£'000
Profit/(loss) before taxation	192	(2,673)	11,963
Adjustments for:			
Depreciation of property plant and equipment	2,185	2,338	4,806
Amortisation of intangible assets	373	367	599
Share-based payments	415	155	154
Finance costs	187	48	96
Finance income	(80)	(24)	(70)
	3,272	211	17,548
Changes in working capital:			
(Increase)/decrease in inventories	(1,339)	(603)	1,104
Increase in trade and other receivables	161	(809)	(685)
Increase in trade and other payables	17,598	23,526	12,123
Cash generated from operating activities	19,692	22,325	30,090
Interest paid	(188)	(48)	(96)
Income taxes (paid)/received	(1,300)	230	(1,220)
Net cash flow generated from operating activities	18,204	22,507	28,774
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,462)	(3,953)	(4,728)
Payments to acquire intangible assets	(79)	(190)	(476)
Interest received	80	24	70
Net cash outflow from investing activities	(1,461)	(4,119)	(5,134)
Cash flows from financing activities			
Dividends paid	(3,921)	(3,933)	(5,893)
Purchase of own shares (note 13)	(1,108)	-	-
Net cash flow used in financing activities	(5,029)	(3,933)	(5,893)
Net increase in cash and cash equivalents	11,714	14,455	17,747
Cash and cash equivalents at beginning of period	40,126	22,379	22,379
Cash and cash equivalents at end of period	**51,840**	**36,834**	**40,126**

A breakdown of the trade and other payables balance sheet position is buried in the notes to the accounts.

Trade and other payables current

	As at 27 January 2018 £'000	As at 28 January 2017 £'000	As at 29 July 2017 £'000
Trade payables	26,181	24,315	29,142
Payments received on account	24,935	22,785	11,506
Other tax and social security payable	7,853	7,401	4,775
Accruals	12,003	10,293	8,371
	70,972	**64,794**	**53,794**

You can work out most of the cash flow movement from trade and other payables by looking at the changes between July 2017 and January 2018 as follows:

Trade & other payables <1y (£m)	January 2018	July 2017	Change (Cash flow)
Trade payables	26.181	29.142	-2.961
Payments on a/c	24.935	11.506	13.429
Other tax and SS	7.853	4.775	3.078
Accruals	12.003	8.371	3.632
Total	70.972	53.794	17.178
Trade payables >1y	7.328	7.140	0.188
Total trade & other payables	**78.3**	**60.934**	**17.366**

Most of the increase in cash flow has come from payments on account. These are deposits paid by customers in advance of their orders being delivered. Clearly a downturn in trading could have a significant negative effect on this source of cash flow and needs to be closely watched if you are an investor in SCS.

At the end of January, the company had £51.8m of cash sitting on its balance sheet or 63% of its current market capitalisation. Back in October, I questioned whether £40m was a true level of cash balance throughout the year but this increase to £51.8m might suggest I was wrong to do so.

As an outsider it's difficult to know how the flow of cash is moving around the company on a weekly or monthly basis and how much of it is genuinely spare cash. What we can safely say is that having SCS's cash balance is a nice position to be in. It certainly gave the company the scope to increase its interim dividend by 8.2%.

Given the current market capitalisation of £82m and forecast post tax profits of £9.4m, the company is valued at just 8.7 times its 2018 forecast earnings. If £51.8m of cash was genuine surplus cash - I still don't think it is - then that multiple would fall to just 3.2 times.

I don't particularly like the wafer thin margins of selling sofas, carpets and flooring or the current retailing environment in the UK. But I do like SCS's cash flow characteristics at the moment and think that there is a lot to admire about how this company is being run.

The forecast dividend yield of 7.2% looks safe for now and remains the key attraction of the shares. I can think of worse companies to invest your money in.