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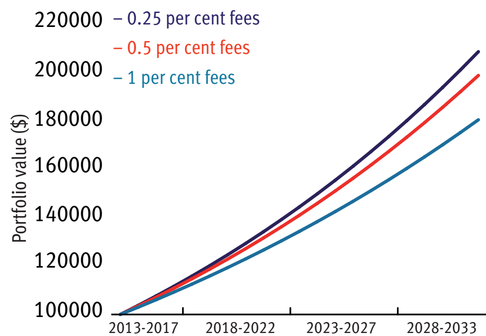
# Phil Oakley's Weekly Round-Up

*This week I revisit the investment cases for some companies that have been quality case studies – and I also look at examples of businesses that fall well short*

The companies mentioned this week are:
- Domino's Pizza
- Hargreaves Lansdown
- Apple
- Vodafone
- Tesco
- James Halstead

**Over time fees eat into returns**




Source: SEC study on the impact of fees on $100,000 portfolio with 4 per cent annual return

## The costs of investing

I find myself discussing the costs of investing a lot these days. In many ways, the costs for private investors in shares, ETFs and investment trusts are fairly cheap as long as you don't trade too much.

I still think the costs of investing in actively-managed open-ended funds is still too high in many cases. This not only comes from the fund manager's fees, which typically range from 0.4 to over 1 per cent, but from the extra costs charged to hold these funds on investor platforms. Hargreaves Lansdown (discussed on page 4) charges 0.45 per cent on up to £250,000 of money invested in funds on its platform, but offers a discount on a list of selected funds. AJ Bell charges 0.25 per cent. Investors in shares, ETFs and investment trusts pay a flat fee – capped at £200 at HL and £100 at AJ Bell, plus VAT.

The platform fees on funds may not seem much, but they add up and eat into an investor's nest egg over time. What gets me is that the platforms have not really explained what they are for and why they discriminate against investors in funds. To me, they just look to have replaced trail commissions that have been banned but were very lucrative for platforms.

Last week, I briefly mentioned the tremendous contribu-

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tion of the late Jack Bogle to private investors in bringing down the cost of investing. Having spent some time looking at the Vanguard UK website this week, I have to say that the rationale for buying cheap tracker funds and ETFs is compelling. Tracker funds can still attract unfair platform charges, but ETFs look more attractive as they don't and are free of stamp duty when you buy them.

Passive investing will be boring to many of you reading this newsletter who are more interested in individual shares. I understand that, but the lesson of keeping your investing costs as low as possible is a good one. Some still have work to do in this respect.

**Domino's Pizza**

For me, **Domino's Pizza (DOM)** has many of the hallmarks of a great business. So much so that I used it as a case study of one in my book: *How to Pick Quality Shares*. It has high profit margins, high returns on capital and is good at turnings its profits into free cash flow. During the past couple of years, the other characteristic needed for outstanding businesses has come under scrutiny – profits growth.

Domino's has set itself an ambitious target of having 1,600 stores in the UK and building up a profitable business in parts of Europe. The company makes most of its money selling pizza ingredients to its franchisees as well as receiving royalties from them (5.5 per cent of system sales) and pays royalties of 2.7 per cent of system sales back to Domino's Pizza Inc in the US.

More stores should mean more pizza sales and more profits from selling ingredients. This all sounds fairly straightforward and should mean good growth in profits, but it is not as simple as that.

Domino's already has 47 per cent of the UK takeaway pizza market. It needs the market to keep growing (the delivered food market is expected to grow at 8 per cent per year until 2022, according to the company) and to hold onto its share in order to keep shareholders happy.

To do this, it needs its franchisees to open up more stores and consistently grow the sales from them. This is where the problems begin. In order to grow its store base, Domino's has been splitting its sales territories. What this means in practice is that a town that used to have two Domino's stores might now have three.

In certain parts of the country where the population is growing, this might not be a problem. Elsewhere, it could be a bigger problem for franchisees if a newly opened store starts taking sales off existing ones – a process known as sales cannibalisation.

As long as sales are growing overall, Domino's is happy


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because it makes more money from selling ingredients. But if this comes at the expense of franchise profitability then Domino's may be biting the hand that feeds it. Many franchisees are also believed to be unhappy, according to a series of articles in *The Sunday Times* over the past year. They apparently think that Domino's is not sharing the pain and gain of volatile ingredients costs fairly (cheese costs are a big one).

It is too early to say if the strategy of splitting stores is hurting Domino's and some of its franchisees, but the company is not helping matters by not telling investors the effects of doing so, which it did initially. Like-for-like (LFL) sales of 4.5 per cent growth during the last quarter of 2018 in the UK looks a good result, but it excludes the impact of splits meaning that the true level of LFL sales will be lower. Store opening numbers remained healthy at 59 last year and is expected to be a similar number in 2019. With some LFL sales growth, maturation of stores opened this year and new openings should keep profits growing in the UK in 2019.

Europe is proving to be a headache for Domino's. LFL sales fell by 7.7 per cent and 6.4 per cent, respectively, in Switzerland and Norway during the fourth quarter and fell slightly in Ireland. The company also has significant cost problems in Norway, which will mean that Domino's European operations lost £3-4m last year and are likely to only breakeven in 2019.

Domino's Pizza Group PLC (DOM)

FORECASTS — £ millions unless stated

| Year | 2018 | | 2019 | | 2020 | |
|---|---|---|---|---|---|---|
| Turnover | 549.7 | +22.0% | 605.8 | +10.2% | 653.9 | +7.9% |
| EBITDA | 113.6 | +16.3% | 123.9 | +9.0% | 134.7 | +8.7% |
| EBIT | 97.3 | +25.9% | 106.9 | +9.8% | 116.7 | +9.2% |
| Pre-tax profit | 96.7 | +28.2% | 104.6 | +8.2% | 115.1 | +10.0% |
| Post-tax profit | 78.2 | -0.6% | 83.2 | +6.4% | 89.1 | +7.1% |
| EPS (p) | 16.4 | +3.8% | 18.1 | +10.4% | 19.8 | +9.4% |
| Dividend (p) | 9.4 | +4.4% | 10.4 | +10.6% | 11.3 | +8.7% |
| CAPEX | 32.3 | -25.5% | 30.3 | -6.2% | 30.2 | -0.5% |
| Free cash flow | 67.4 | +34.2% | 82.6 | +22.6% | 91.0 | +10.1% |
| Net borrowing | 200.9 | +111.9% | 170.4 | -15.2% | 138.6 | -18.7% |
| NAV | 6.8 | -84.5% | 45.7 | +572.1% | 89.4 | +95.6% |
| Like for like sales growth % | 4.5 | | 4.5 | +0.4% | 4.3 | -5.5% |

Source: SharePad

Pre-tax profits for 2018 are now expected to be at the lower end of the range of analysts' expectations of £93.9m to £98.2m, and forecasts for 2019 and 2020 are likely to be reduced as well.

Domino's share price has been struggling to progress for the best part of the past three years and their valuation has come down significantly. The shares currently trade


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on a TTM PE of just over 15 times at a share price of 265p. With stuttering and uncertain growth that looks about right to me.

**Hargreaves Lansdown**

I wrote about **Hargreaves Lansdown (HL.)** recently in my magazine column. There's a lot to like about the business and after Rightmove it is the most profitable business traded on the London Stock Exchange.

Despite its ability to serve its customers (1.14m of them) and its shareholders well over the years, it does have its critics. The key gripe against Hargreaves Lansdown is that its fees are too high and that customers are getting fleeced.

As you can see from the table below, the company's biggest source of revenue comes from the fees it makes on open ended investment funds. The customer pays 0.45 per cent on the value of their fund holdings to HL, up to a limit of £250,000, after which the incremental percentage fee declines. It's a nice earner, particularly when clients owning shares, ETFs and investment trusts pay a fixed fee capped at £200+ VAT.

| | **6 months ended 31 December 2018** | | | 6 months ended 31 December 2017 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Net revenue £m** | **Average AUA £bn** | **Net revenue margin bps** | Net revenue £m | Average AUA £bn | Net revenue margin bps | Net revenue £m | Average AUA £bn | Net revenue margin bps |
| Funds[1] | **103.2** | **50.1[7]** | **41** | 97.8 | 47.4[7] | 41 | 198.0 | 48.4[7] | 41 |
| Shares[2] | **42.1** | **30.8** | **27** | 42.9 | 27.3 | 31 | 89.6 | 28.3 | 32 |
| Cash[3] | **33.2** | **9.9** | **67** | 18.2 | 8.4 | 43 | 42.1 | 8.8 | 48 |
| HL Funds[4] | **34.7** | **9.3[7]** | **74** | 33.3 | 9.0[7] | 74 | 67.2 | 9.1[7] | 74 |
| Other[5] | **23.2** | **0.2[6]** | **-** | 23.8 | - | - | 50.6 | - | - |
| Double-count[7] | **-** | **(9.3)[7]** | **-** | - | (9.0)[7] | - | - | (9.1)[7] | - |
| Total | **236.4** | **91.0[7]** | **-** | 216.0 | 83.1[7] | - | 447.5 | 85.5[7] | - |

1 Platform fees and renewal commission.
2 Stockbroking commission and equity holding charges.
3 Net interest earned on client money.
4 Annual management charge on HL Funds, i.e. excluding the platform fee, which is included in revenue on Funds.
5 Advisory fees, Funds Library revenues, Active Savings and ancillary services (e.g. annuity broking, distribution of VCTs and HL Currency and Market Services).
6 Average cash held via Active Savings.
7 HL Funds AUM included in Funds AUA for platform fee and in HL Funds for annual management charge. Total average AUA excludes HL Fund AUM to avoid double-counting.

Source: Company report

During the first half of its 2018-19 financial year, fund revenues increased, but essentially stayed the same with shares and HL's own managed funds. The main source of growth has come from cash assets where revenues increased by £15m. Most of this has come from the increase in net revenue margin from 43bps to 67bps. HL has invested a lot in its cash offer to take advantage of its clients' increasingly cautious risk attitudes but its fees are also likely to be criticised.


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Even so, HL has taken on another 45,000 clients and another £2.5bn of assets under management. However, the important fact is that HL's fortunes are heavily dependent on the performance of stock markets as the value of assets under management (AUM) – and the fees earned on them – moves up and down with them. Closing AUM of £85.9m were broadly unchanged on a year ago and were down 6 per cent from where they were in June 2018.

Hargreaves Lansdown PLC (HL.)

FORECASTS — £ millions unless stated

| Year | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Turnover | 495.0 | +10.6% | 549.1 | +10.9% | 617.0 | +12.4% |
| EBITDA | 332.7 | +13.0% | 370.9 | +11.5% | 422.7 | +14.0% |
| EBIT | 319.3 | +11.4% | 356.1 | +11.5% | 404.5 | +13.6% |
| Pre-tax profit | 320.4 | +10.4% | 361.4 | +12.8% | 423.1 | +17.1% |
| Post-tax profit | 257.6 | +9.9% | 288.1 | +11.8% | 334.8 | +16.2% |
| EPS (p) | 54.6 | +11.0% | 61.7 | +13.0% | 71.7 | +16.2% |
| Dividend (p) | 43.4 | +34.8% | 48.8 | +12.4% | 55.8 | +14.3% |
| CAPEX | 8.8 | -45.7% | 8.8 | 0.0% | 9.3 | +5.7% |
| Free cash flow | 288.6 | +26.2% | 326.2 | +13.0% | 360.1 | +10.4% |
| Net borrowing | -275.0 | | -336.6 | | -406.0 | |

Source: SharePad

Despite growing revenues by £22.4m, costs increased by £15m and pre-tax profits therefore only increased by 4 per cent. Cost growth should moderate going forward after a period of heavy investment in service and marketing but full year forecasts look too high to me and are likely to be revised downwards unless markets move up significantly.

This leaves the shares on a current one year forecast rolling PE of 28.7 times at a share price of 1,660p looking fully up with events.

## Apple

My column in the magazine this week discusses how easy it is for investors to copy the investing style of Warren Buffett. Buffett's Berkshire Hathaway has been a big investor in **Apple (NASDAQ:AAPL)** over the past year or so, but it's worth remembering that he doesn't always get things right – IBM and Tesco are good examples of this. Could Apple be another mistake?

As a customer, I am a big Apple fan. I own or subscribe to all its products and services apart from its overpriced and underwhelming HomePod. I own the products until they stop working and am not a regular product changer for the sake of having the latest model.

I am not that big a fan of its shares for the simple reason that I think the company is far too reliant on the sales of iPhones, which look like they have run out of growth.

This week's first-quarter results revealed a 15 per cent fall in iPhone sales – or $9.1bn – during the all important Christmas trading period. Good percentage sales growth


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was seen elsewhere; from Mac (+8.6), iPad (+16.9), Wearables & Accessories (+33.3) and Services (+19.1). However, the dominance of iPhone (nearly 62 per cent of quarterly sales) dragged down overall revenues by 4.5 per cent.

| (1) Net sales by reportable segment: | | |
|---|---|---|
| Americas | $ 36,940 | $ 35,193 |
| Europe | 20,363 | 21,054 |
| Greater China | 13,169 | 17,956 |
| Japan | 6,910 | 7,237 |
| Rest of Asia Pacific | 6,928 | 6,853 |
| Total net sales | $ 84,310 | $ 88,293 |
| (1) Net sales by category: | | |
| iPhone | $ 51,982 | $ 61,104 |
| Mac | 7,416 | 6,824 |
| iPad | 6,729 | 5,755 |
| Wearables, Home and Accessories | 7,308 | 5,481 |
| Services | 10,875 | 9,129 |
| Total net sales | $ 84,310 | $ 88,293 |

Source: Company report

Net income or post-tax profit was down slightly, but EPS of $4.16 was a quarterly record due to there being 7.5 per cent fewer shares in issue.

| Apple Inc | Q1 2019 | Q1 2018 | Q2 2019(F) | Q2 2018 | H1 2019(F) | H1 2018 | % change |
|---|---|---|---|---|---|---|---|
| Revenue ($bn) | 84.31 | 88.293 | 57 | 61.137 | 141.31 | 149.43 | -5.4% |
| Gross profit | 32.031 | 33.912 | 21.375 | 23.422 | 53.406 | 57.334 | -6.9% |
| Opex | -8.685 | -7.638 | -8.55 | -7.525 | -17.235 | -15.163 | 13.7% |
| Other income | 0.56 | 0.756 | 0.3 | 0.274 | 0.86 | 1.03 | -16.5% |
| Pre-tax profit | 23.906 | 27.03 | 13.125 | 16.171 | 37.031 | 43.201 | -14.3% |
| Tax | -3.941 | -6.965 | -2.23 | -2.346 | -6.171 | -9.311 | -33.7% |
| Post tax profit | 19.965 | 20.065 | 10.895 | 13.825 | 30.86 | 33.89 | -8.9% |

Source: Company report and IC

The company's guidance for the second quarter does not look good. Taking the middle point of its guidance, sales are expected to be down by 6.8 per cent, with profits down by a whopping 21.2 per cent, according to my numbers. This would bring half-year profits down by nearly 9 per cent.

The problem I see Apple facing is that the loss of very profitable iPhone sales cannot be offset by the growing sales elsewhere. Not yet anyway. Apple is rumoured to be considering cutting the selling price of the iPhone, which perhaps is an admission they are too expensive.

I think the iPhone sales decline may have a long way to go and that profits are going to be under pressure. To me consensus profit forecasts, while modest in terms of growth look too high. Continued share buybacks will provide better support at the EPS level, but is not a high quality driver.


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**Apple Inc (AAPL)**

FORECASTS — $ millions unless stated

| Year | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Turnover | 260,364.3 | -2.0% | 271,517.2 | +4.3% | 276,951.6 | +2.0% |
| EBITDA | 76,168.0 | -12.5% | 80,034.8 | +5.1% | 83,840.6 | +4.8% |
| EBIT | 65,526.3 | -13.9% | 68,003.8 | +3.8% | 71,116.5 | +4.6% |
| Pre-tax profit | 66,938.8 | -8.2% | 69,166.8 | +3.3% | 72,724.5 | +5.1% |
| Post-tax profit | 55,832.8 | -6.2% | 57,857.6 | +3.6% | 59,956.0 | +3.6% |
| EPS (¢) | 1,202.7 | +1.0% | 1,342.3 | +11.6% | 1,486.7 | +10.8% |
| Dividend (¢) | 308.4 | +9.4% | 332.9 | +7.9% | 348.1 | +4.6% |
| CAPEX | 13,905.7 | +4.5% | 14,238.2 | +2.4% | 15,166.7 | +6.5% |
| Free cash flow | 60,771.0 | -5.2% | 61,517.2 | +1.2% | 66,038.3 | +7.3% |
| Net borrowing | -99,860.1 | | -72,038.0 | | -48,077.1 | |

Source: SharePad

Apple has a whopping $130bn of cash which equates to $27.49 per share. Stripping this out, at a share price of $162.24, the shares trade on a one year forecast rolling PE (on questionable forecasts) of just 10.8 times. That looks very cheap for a highly profitable global brand. If Apple had some innovative products coming through to drive sales and profits growth then you'd be inclined to think the shares were very attractive – they might still be – but the danger is that Apple's profits have peaked for now.

## Vodafone

**Vodafone (VOD)** is one of the most hated large-cap shares out there and is trading at multi-year lows. The forecast yield of 9.6 per cent is a clear sign that the market thinks that its dividend payout is unsustainable. It's hard to disagree.

This is a company that looks to be in big trouble. It's problems rest with the fact that mobile telephony services are a commodity and are priced as such. Price competition is savage and this means that Vodafone is a shrinking business.

Asset intensity remains high and the business will require more investment in 5G spectrum across Europe, but it might keep the cost down by teaming up with O2. Debt also looks to be too high for a shrinking business and even selling off mobile masts is unlikely to reduce it much.

Vodafone is doing what all ex-growth utility companies do and is cutting costs. That's fine, but only buys time when you run out of costs to cut. What Vodafone needs to do is improve its competitiveness. From what I can see, it has been cutting prices in the UK but it still faces very strong competition from the likes of BT – which owns EE – who is offering some eye wateringly cheap SIM only deals to its broadband customers.


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Vodafone Group PLC (VOD)

FORECASTS € millions unless stated

| Year | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Turnover | 44,997.4 | -3.4% | 45,977.8 | +2.2% | 46,848.9 | +1.9% |
| EBITDA | 14,191.3 | -3.7% | 14,784.8 | +4.2% | 15,478.9 | +4.7% |
| EBIT | 4,494.1 | -6.9% | 5,319.6 | +18.4% | 6,061.6 | +13.9% |
| Pre-tax profit | 3,711.5 | +1.3% | 4,338.1 | +16.9% | 5,244.3 | +20.9% |
| Post-tax profit | 2,588.1 | -19.6% | 3,265.7 | +26.2% | 3,825.9 | +17.2% |
| EPS (¢) | 9.5 | -18.1% | 11.7 | +23.2% | 13.8 | +17.9% |
| Dividend (p) | 13.1 | -1.6% | 12.7 | -3.3% | 12.5 | -1.4% |
| CAPEX | 7,532.5 | -7.7% | 7,708.4 | +2.3% | 7,758.9 | +0.7% |
| Free cash flow | 5,284.8 | +27.5% | 5,499.5 | +4.1% | 5,650.3 | +2.7% |
| Net borrowing | 35,760.3 | -7.3% | 37,068.3 | +3.7% | 37,015.9 | -0.1% |

Source: SharePad

It's not a question of when Vodafone's dividend will be cut but by how much? All the free cash flow is currently being spent on dividend payments while debt is expected to rise. This mix of events cannot last in my opinion. If I was looking to invest in telecoms then I would probably spend more time looking at **BT (BT.A)**.

This company also faces a lot of problems but they look easier to fix while the dividend yield – 6.6 per cent – might get trimmed a little but not slashed. The shares also trade on a more attractive one year forecast rolling PE of 9.1 times, compared with Vodafone on 13.8 times. EV/EBIT (earnings before interest and taxes), which takes into account debt and pension fund deficits, makes BT look relatively even cheaper on a 2019 multiple of 11.3 times, compared with 17.1 times for Vodafone.

## Tesco

**Tesco (TSCO)** used to be a very good business, but not an outstanding one in my opinion. Its success came from its communication of value for money to customers and an ability to aggressively open up lots of stores over a number of years and bag a dominant share of the UK grocery market in the process.

A large chunk of its investments in the UK and overseas have turned bad. In many cases, this is due to the simple fact of too many supermarkets chasing too few shoppers and the rise of discounters with leaner and more competitive business models.

The case for investing in Tesco shares today rests on the strategy of growing profits and profit margins by cutting costs – it is unlikely to come from a return to rapid sales growth. The acquisition of wholesaler Booker has given Tesco a good start in meeting its 4 per cent margin target – helped out by the fact that Booker's margins were higher than Tesco's – but newspaper reports last weekend, which suggested that it would looking to slash 9,000 jobs, suggests that it is still some way away.


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Tesco PLC (TSCO)

FORECASTS — £ millions unless stated

| Year | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Turnover | 64,156.7 | +11.6% | 65,366.2 | +1.9% | 66,705.1 | +2.0% |
| EBITDA | 3,421.9 | +17.7% | 3,771.9 | +10.2% | 4,011.0 | +6.3% |
| EBIT | 2,055.9 | +27.5% | 2,381.5 | +15.8% | 2,603.7 | +9.3% |
| Pre-tax profit | 1,750.3 | +70.4% | 2,126.4 | +21.5% | 2,374.5 | +11.7% |
| Post-tax profit | 1,330.4 | +36.7% | 1,608.9 | +20.9% | 1,836.4 | +14.1% |
| EPS (p) | 13.9 | +16.8% | 16.8 | +20.9% | 18.8 | +11.9% |
| Dividend (p) | 5.1 | +70.0% | 7.5 | +47.1% | 9.2 | +22.7% |
| CAPEX | 1,230.0 | -24.9% | 1,285.5 | +4.5% | 1,304.2 | +1.4% |
| Free cash flow | 1,491.1 | +1.7% | 1,714.0 | +14.9% | 1,824.6 | +6.5% |
| Net borrowing | 2,535.5 | -52.5% | 1,669.3 | -34.2% | 516.5 | -69.1% |
| NAV | 14,943.0 | +42.6% | 15,716.0 | +5.2% | 15,399.0 | -2.0% |

Source: SharePad

City analysts currently forecast that Tesco will hit its margin target by 2021, but there may be grounds to revise this expectation given the news of more potential job losses.

While Tesco has recovered some of its competitiveness in the UK market it still faces a lot of problems in my opinion. These problems also face the likes of Asda and Sainsbury's – who are trying to get themselves out of difficulty by merging – and to a lesser extent, Morrisons. The issue is how to stop losing customers to discount retailers such as Aldi and Lidl.

These companies succeed in large part due to their leaner business models. Their stores are much smaller and they have narrower product ranges which allows them to concentrate their buying power with suppliers and pass the benefits onto customers in the form of lower prices.

The big chains are nowhere near this from what I can see. Tesco and Morrisons are in better shape than they were five years ago, but their large stores come with burdensome overheads. None of the big players have demonstrated that they can make good profits – or any profits – on internet grocery sales.

Despite not liking the sector, I do think Tesco and Morrisons are the best two operators of the big supermarkets and that their shares might be of interest to patient income-seekers.

The attraction with Tesco – as with Morrisons – for investors is in the ability to grow dividends from a low base. If they can defend their higher profits then both shares will offer dividend yields of more than 4 per cent on current share prices in two years' time.


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## James Halstead

Ask me to name one of my favourite UK business and commercial flooring maker and distributor, **James Halstead (JHD)** would be fairly close to the top of my list. In many ways, this is because of the way the business is run and how it presents itself to investors.

The company is highly profitable and has no debt. Unlike so many companies these days it never engages in shady accounting and does not have a line in its accounts relating to adjusted profits. Extra costs are taken on the chin, but they do tell you if they are one off or not.

The business has a very good track record in moving its profits higher although the rates of growth have come down in recent years. This has seen the valuation of its shares go from being arguably too high and coming towards a level that might generously be described as reassuringly expensive. At 460p, the shares are hardly cheap on a one year forecast rolling PE of 23.9 times, but the company continues to exude quality.

James Halstead PLC (JHD)

FORECASTS — £ millions unless stated

| Year | 2019 | | 2020 | | 2021 | |
|---|---|---|---|---|---|---|
| Turnover | 256.9 | +3.0% | 262.6 | +2.2% | 271.0 | +3.2% |
| EBITDA | 53.9 | +7.0% | 55.5 | +3.1% | 58.1 | +4.6% |
| EBIT | 51.0 | +7.9% | 52.6 | +3.1% | 55.1 | +4.8% |
| Pre-tax profit | 50.5 | +8.0% | 52.0 | +3.1% | 54.6 | +4.9% |
| Post-tax profit | 39.7 | +8.2% | 41.3 | +4.0% | 42.9 | +3.9% |
| EPS (p) | 18.9 | +7.4% | 19.5 | +3.2% | 20.4 | +4.6% |
| Dividend (p) | 14.5 | +7.4% | 15.2 | +4.8% | 15.9 | +4.6% |
| CAPEX | 3.0 | -15.9% | 3.0 | 0.0% | 3.0 | 0.0% |
| Free cash flow | 42.5 | +69.5% | 39.4 | -7.3% | 41.0 | +4.1% |
| Net borrowing | -60.9 | | -67.9 | | -75.4 | |

Source: SharePad

Back in September, I commented that I thought that the company was looking as if it might be starting to build some meaningful sales momentum again. This was confirmed with an encouraging annual general meeting (AGM) update in December.

This week's candid trading update for the six months to December 2018 may have thrown some investors. Five months have seen good trading, but December was bad. The company put this down to fewer trading days and destocking by distributors which always makes me a little nervous.

Happily, trading in January has picked up and is better than last year. Half year profits are expected to be at record levels and cash balances have grown again.

Long-time followers of James Halstead will know that it is a generous dividend payer – which gives a yield of 3.2 per cent on the expected payout for 2019 – and that dividends are thinly covered by profits. I know some fear

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that the dividend may be cut if times get tough. That's not unreasonable but I think the dividend could weather a pretty big storm. The current cost of it is just over £27m which is almost twice covered by the company's last reported cash balance.


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