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23 November 2018

Phil Oakley's Weekly Round-Up

Two of my favourite companies, Halma and Spirax-Sarco, are covered in this week's round-up, and I also explain why easyJet shares might be attractive. I'm not convinced Apple can continue to grow or that SSP Group offers value, plus I think pub group Marston's could be a value trap.

The companies mentioned this week are:
- Apple
- SSP Group
- Marston's
- Halma
- Spirax-Sarco
- easyJet

Apple

I am an Apple fan. I own lots of its products and like the fact that they are easy to use, secure and work seamlessly with other devices. But I am not an **Apple (US:AAPL)** fanboy.

By this, I mean that I do not feel the urge to upgrade my device to the latest version as soon as it is released. Generally speaking, I will keep my iPhone, iMac, Macbook, Apple Watch, Apple TV and iPad until they break or cannot do something that I want them to do.

I am one of the increasing number of Apple consumers that some commentators are using to build a bear case for Apple shares – which have fallen by nearly 20 per cent during the last month – a view I have a lot of sympathy with.

For many years, Apple has defied the bears that have said it is too reliant on the iPhone (63 per cent of total sales in 2018) and that it cannot escape the natural economics of consumer electronics products eventually falling in price. It is still doing this in 2018. The number of iPhones sold during the fourth quarter of 2018 were unchanged on a year earlier, but revenues increased by 29 per cent as more higher-priced iPhones were sold.

Every year the same question is asked: How long can Apple keep on doing this?

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If a series of profit warnings by Apple suppliers is anything to go by, then maybe for not much longer.

I think Apple has got itself into a dangerous position. The pricing of its new iPhones are verging on the ridiculous. The iPhone XS has a starting price of £999, which is more than the price of an entry level MacBook Air laptop (£949). My recently purchased iPhone 7, with 128 GB of storage, that does everything that most people want a smartphone to do, fits in my pocket and sells for £549. I am hoping for several years of use out of it.

Undoubtedly, there will be people who must have the latest model of the iPhone, but their number is falling. Apple users will probably not switch to Android *en masse*, but it is increasingly likely that the upgrade cycle for older iPhones in use will lengthen and that is bad for Apple in my view. This is evidenced by stagnating iPhone sales.

The fact Apple has said it will no longer tell people how many iPhones it has sold is also a sign that the outlook for unit growth is probably weak. If Apple thinks it can continually increase selling prices – whilst offering little in the way of practicality – in order to grow revenues, then it may face a rude awakening and a consumer backlash over the next few years.

Bulls of Apple shares point to its Services – iTunes, iCloud, Apple Music and the App Store – as a way to compensate any iPhone weakness. I'm not sure about this, as whilst services revenues are growing strongly they account for only 14 per cent of overall sales and will not have anywhere near the level of profit contribution per dollar of product sales.

Apple Inc (AAPL)

FORECASTS $ millions unless stated

Year	2019		2020		2021	
Turnover	279,303.7	+5.2%	289,740.3	+3.7%	306,183.3	+5.7%
EBITDA	84,708.8	-2.7%	87,773.7	+3.6%	91,983.1	+4.8%
EBIT	73,034.4	-4.1%	75,396.6	+3.2%	78,054.3	+3.5%
Pre-tax profit	74,165.0	+1.7%	76,365.8	+3.0%	81,015.2	+6.1%
Post-tax profit	62,268.3	+4.6%	64,034.0	+2.8%	68,213.2	+6.5%
EPS (¢)	1,343.9	+12.8%	1,475.4	+9.8%	1,663.9	+12.8%
Dividend (¢)	299.5	+6.2%	336.5	+12.4%	328.7	-2.3%
CAPEX	14,321.1	+7.6%	14,687.0	+2.6%	15,561.1	+6.0%
Free cash flow	64,182.5	+0.1%	65,748.2	+2.4%	78,048.8	+18.7%
Net borrowing	-101,015.0		-66,058.6		-87,944.5	

Source: SharePad

At the moment, analysts are not predicting a profits collapse at Apple, but growth is expected to be quite muted. The ongoing buyback of shares helps the EPS growth outlook.

Apple shares have rarely traded on expensive valuations because of its reliance on the iPhone. At just over 13 times forecast earnings that is still the case. The problem I see

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with Apple is that its pace of innovation has slowed to a trickle. It is not bringing out revolutionary products that are better than those offered by cheaper competitors.

Its squeaky-clean financial position and sticky customer base remain attractive but I think the recent caution showed towards Apple and its future growth prospects is more than justified.

SSP Group

Regular readers of these pages will know that I hold WH Smith's travel business in high regard. This is because of the captive customers it has at airports, train stations and hospitals. The business is very profitable, earns good returns on capital, is cash-generative and capable of future growth. The only issue I have is whether the implied valuation of the business is too high.

SSP (SSPG) is a pure play on a similar theme. It has food and drinks outlets at travel locations across the world such as airports, train stations and motorway service areas. It licences brands such as Burger King and Starbucks as well as using its own brands Upper Crust and Ritazza.

	2018 GBPm	2017 GBPm	Change Reported	Constant currency	LFL
Revenue	2,564.9	2,379.1	+7.8%	+9.5%	+2.8%
Underlying operating profit	195.2	162.9	+19.8%	+22.7%	
Underlying operating margin	7.6%	6.8%	+80 bps	+80 bps	
Operating profit	193.3	161.0	+20.1%		
Operating margin	7.5%	6.7%	+80 bps		

Source: Company report

Full-year results for 2018 released this week were good and slightly better than analysts' forecasts. Like-for-like (LFL) sales growth of 2.8 per cent was complemented by 5.1 per cent sales growth coming from new concessions – particularly in North America and Asia. A healthy improvement in operating margins gave a nice kicker to profits.

Despite these good figures, the share price fell more than 7 per cent by lunchtime on Wednesday. This was mainly due to the unexpected announcement that its chief executive was leaving, which always leads people to question whether the company's fortunes have peaked.

Given the expectation of around 6 per cent sales growth in 2019 (split evenly between LFL and new concessions) and a 20 basis point improvement in operating margins, I also think the lack of a forecast upgrade also contributed to the sell-off.

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SSP's shares are highly rated on a forward PE of 23.8 times, at a share price of 636p, and arguably need an upgrade to move the share price higher.

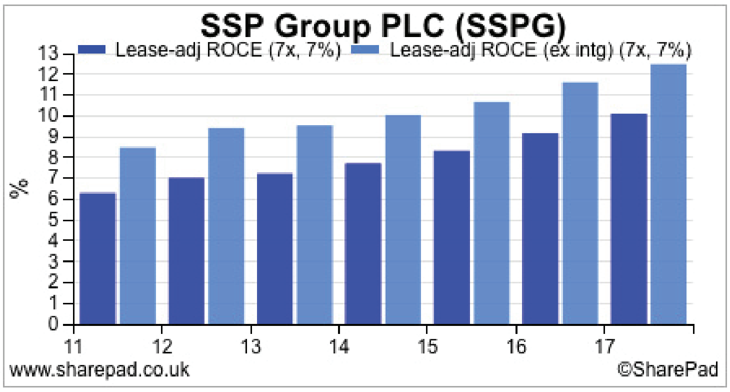
SSP Group PLC (SSPG)

FORECASTS — £ millions unless stated

Year	2018		2019		2020	
Turnover	2,559.8	+7.6%	2,709.2	+5.8%	2,849.4	+5.2%
EBITDA	296.6	+15.1%	318.0	+7.2%	341.5	+7.4%
EBIT	192.0	+19.8%	209.2	+8.9%	225.9	+8.0%
Pre-tax profit	179.3	+20.5%	196.7	+9.7%	214.7	+9.2%
Post-tax profit	115.4	+19.5%	126.5	+9.7%	137.3	+8.5%
EPS (p)	24.2	+16.9%	26.8	+10.7%	29.2	+9.0%
Dividend (p)	10.0	+19.5%	11.2	+12.0%	12.2	+8.9%
CAPEX	139.4	+21.2%	134.8	-3.3%	137.7	+2.2%
Free cash flow	116.8	+7.8%	130.1	+11.4%	150.4	+15.6%
Net borrowing	319.4	+17.2%	291.6	-8.7%	231.7	-20.5%
NAV	-		-		-	
Like for like sales growth %	2.9		3.0	+3.4%	3.1	+5.0%

Source: SharePad

I'd probably be more inclined to own shares in WH Smith – at the right price – than SSP, if I wanted exposure to this travel retail sub-sector. SSP's margins are half those of WH Smith's Travel business whilst its ROCE (even after stripping out the considerable goodwill on the balance sheet) is reasonable but not outstanding.



Source: SharePad

Given its steady but unspectacular growth and the fact that concessions are not evergreen and likely to rise in price, I think SSP shares remain a bit too expensive.

Marston's

Owning and running pubs is a hard way to make decent money. Taking on debt only compounds the difficulties faced.

This pretty much sums up pub and brewing company **Marston's (MARS)** over the past few years. Despite its shares offering a very chunky dividend yield, they have proven to be something of a value trap as the company has struggled to make much headway in a very difficult and competitive market.

I'm a long-term bear of the UK pub market. The market is over supplied and faces horrendous and ongoing cost pressures. With a few exceptions, this backdrop has led to weak revenue growth, declining profit margins and very modest returns on capital invested. I therefore see little attraction for investors in pub shares.

Marston's full-year results for 2018 show a business that is continuing to struggle. Apart from the brewing business, where profits were helped by an acquisition, this remains a company with very little profit growth.

The key Destination and Premium pubs business saw next to no profits growth, with LFL sales falling by 1.2 per cent. This has probably meant profits in existing pubs are falling due to rising wages and business rates and are barely offset by the contribution of profits from newly-opened pubs.

	Underlying revenue		Underlying operating profit		Margin	
	2018	2017	2018	2017	2018	2017
	GBPm	GBPm	GBPm	GBPm	%	%
Destination and Premium	450.7	438.0	89.4	88.9	19.8	20.3
Taverns	312.0	301.3	86.1	84.1	27.6	27.9
Brewing	377.7	252.9	32.0	25.5	8.5	10.1
Group Services	-	-	(25.0)	(24.0)	(2.2)	(2.4)
Group	1,140.4	992.2	182.5	174.5	16.0	17.6

Source: Company report

Weak free cash flow and high debts continue to weigh on the company. Free cash flow – even after counting the proceeds from pub sales – was negative to the tune of £7.6m, compared with a small free cash inflow of £8.6m last year. Given that the dividend cost to this business is currently £47m, I struggle to see how Marston's is going to avoid a dividend cut over the next few years.

This predicament largely explains the company's decision to cut back on investing in new pubs and generate more cash flow to pay down debt. Over the next three to five years, it is targeting a one point reduction in its net debt to Ebitda (earnings before interest, tax, depreciation and amortisation) ratio. Currently net debt to Ebitda

Marston's PLC (MARS)

FORECASTS — £ millions unless stated

Year	2018		2019		2020	
Turnover	1,095.7	+8.3%	1,123.7	+2.6%	1,167.3	+3.9%
EBITDA	227.1	+6.3%	233.5	+2.8%	241.1	+3.2%
EBIT	182.6	+2.8%	188.2	+3.1%	194.5	+3.4%
Pre-tax profit	104.1	+1.2%	109.1	+4.7%	113.2	+3.8%
Post-tax profit	87.1	+3.0%	90.9	+4.4%	94.1	+3.6%
EPS (p)	13.6	-2.9%	14.2	+4.4%	14.7	+3.5%
Dividend (p)	7.6	+1.3%	7.8	+2.6%	7.9	+1.3%
CAPEX	157.3	-19.9%	135.8	-13.7%	136.5	+0.6%
Free cash flow	28.3		46.7	+65.1%	33.5	-28.1%
Net borrowing	1,330.1	-8.2%	950.4	-28.5%	899.7	-5.3%

Source: SharePad

is a very high 4.6 times, so reducing it seems like a good idea to me.

The company has highlighted the value of its property portfolio of £2.2bn, equivalent to a net asset value (NAV) per share of 151p. In my view, this should not be taken as an indication that Marston shares, at just over 102p at the time of writing, are cheap.

Based on the current 640m shares outstanding, total equity of £957.6m equates to a NAV per share of 141p. Tangible assets – excluding goodwill and intangible assets of £300m – equate to 96.6p per share.

That said, you have to consider how the properties' values are arrived at. Are they valued as pubs or given an alternative use value?

Marston's is currently producing a very weak return on capital employed (ROCE) of 6.6 per cent pre-tax on its total capital invested. For its pub property assets to be worth 151p per share as pubs, I would suggest that Marston's ROCE should be nearer to 10 per cent as a bare minimum, especially as brewing is likely to earn a higher ROCE.

If the gap between the realisable value of pub assets and the current share price is large, then perhaps Marston's shareholders should put pressure on management to liquidate the business and returns the proceeds to them.

Halma

If you were to ask me to name a UK-listed share that – valuation aside – I would be happy to own for the next decade then **Halma (HLMA)** would be pretty close to the top of the list. For me, it is a wonderful business that has delivered excellent returns for long-term investors.

I like problem-solving businesses which are not easy for competitors to copy. Halma and Spirax-Sarco (to be discussed later on) are great examples.

Halma's businesses make and sell products that aim to protect and improve the quality of people's lives. It is a global business with 84 per cent of its revenues earned outside the UK. The company is focused on four key sectors:

■ **Process safety (18 per cent of profits)** – products include specialised interlocks to control critical processes, gas detectors, explosion protection, pressure relief systems and pipeline corrosion monitoring.

■ **Infrastructure safety (31 per cent of profits)** – fire detection systems, smoke detectors, fire suppression systems, security sensors and elevator safety products.

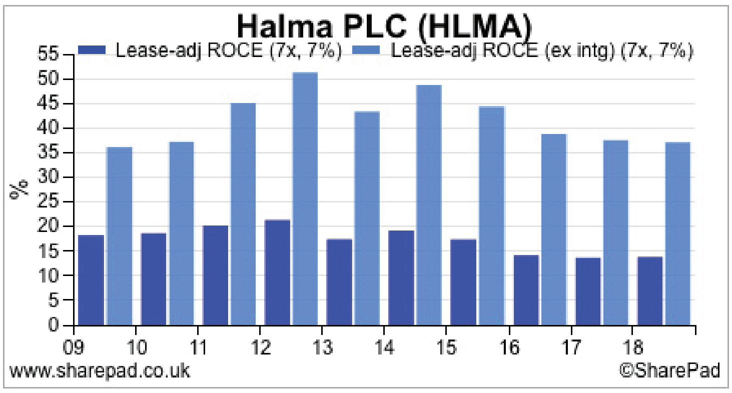
■ **Medical (28 per cent of profits)** – devices that check eye health and help with eye surgery, fluidic components used by medical diagnostic companies and sensor technologies used in hospitals to track assets and help with patient safety.

■ **Environmental & analysis (23 per cent of profits)** – opto-electronic sensors, flow measurement, water quality testing, leak detection and UV water treatment.

The company's products help to solve problems and stop them happening in the first place. They are sold into industries where there are high regulatory and safety requirements, which means that it is not easy for new competitors to enter markets and drive down Halma's profits.

Halma's strategy is to focus on profitable and growing niche markets that will do well regardless of the state of the world economy. Over the years it has combined growth from existing businesses with acquisitions to enter new areas. There has been a consistently high level of spending on research and development to create new products with spending regularly exceeding 5 per cent of revenues (5.3 per cent in the first half of 2018/19).

Including goodwill, which is around half of Halma's invested capital, its ROCE is very respectable. Excluding goodwill and intangibles, returns on its operating capital employed are very good, indeed.



Source: SharePad

Halma's half-year results released this week can only be described as very good. Organic sales growth at constant currency was 14 per cent with organic operating profits on the same basis up by 16 per cent.

Halma saw decent growth across all geographies.

	Half year 2018/19		Half year 2017/18				
	£m	% of total	£m	% of total	Change £m	% growth	% organic growth at constant currency
United States of America	216.0	37%	181.8	36%	34.2	19%	23%
Mainland Europe	124.3	21%	109.0	21%	15.3	14%	8%
United Kingdom	96.2	16%	79.7	16%	16.5	21%	13%
Asia Pacific	88.1	15%	84.0	17%	4.1	5%	5%
Other regions	60.9	11%	51.8	10%	9.1	17%	14%
	585.5	100%	506.3	100%	79.2	16%	14%

Source: Company report

Sector revenue growth was also very good.

External revenue by sector

	Half year 2018/19	Half year 2017/18			
	£m	£m	Change £m	% growth	% organic growth at constant currency
Process Safety	97.9	88.8	9.1	10%	12%
Infrastructure Safety	197.6	167.9	29.7	18%	13%
Medical	147.2	133.3	13.9	10%	14%
Environmental & Analysis	143.0	116.5	26.5	23%	19%
Inter-segmental revenue	(0.2)	(0.2)	–	–	–
	585.5	506.3	79.2	16%	14%

Source: Company report

I think the prospects for further growth look good and are underpinned by the trends of growing world populations and an increasing focus on better health and safety standards.

My main concern surrounds the Process Safety business which remains very reliant on oil and gas markets for sales of its safety interlocks. Demand for oil and gas is not expected to grow much in the future as people and businesses shift to alternative energy sources.

That said, new sources of oil and gas and newer techniques (such as fracking) will be needed to maintain production levels and this should be supportive for interlock sales. Halma is also actively seeking ways to diversify away from the oil and gas sector.

The outlook for infrastructure safety looks to be very promising. Urban population growth and increasing regulation bodes well for Halma's fire, security and elevator businesses. These businesses have significant maintenance and replacement demand which tends to be very profitable.

Ageing populations and growing health problems such as diabetes, high blood pressure and cancer should feed demand for Halma's medical business. The increased focus on water and air pollution and water resources is good for the environmental & analysis business.

The key risk is that Halma's high profit margins attract competition. The fact it has been able to withstand competitive threats for many years is reassuring and a sign the business has been well managed. This has been helped by significant investment in new products and smart acquisitions that have brought new technologies to the company. This trend has continued in 2018.

Halma PLC (HLMA)

FORECASTS £ millions unless stated

Year	2019		2020		2021	
Turnover	1,160.8	+7.9%	1,229.1	+5.9%	1,299.8	+5.7%
EBITDA	275.0	+13.4%	293.4	+6.7%	313.8	+6.9%
EBIT	243.9	+35.4%	261.5	+7.2%	281.7	+7.7%
Pre-tax profit	234.6	+37.0%	252.7	+7.7%	272.3	+7.7%
Post-tax profit	186.6	+8.8%	201.1	+7.8%	221.1	+9.9%
EPS (p)	49.4	+9.1%	53.2	+7.7%	58.4	+9.8%
Dividend (p)	15.7	+6.9%	16.8	+7.0%	18.0	+7.1%
CAPEX	37.3	+17.9%	35.0	-6.3%	35.9	+2.7%
Free cash flow	158.3	+17.5%	178.3	+12.7%	194.2	+8.9%
Net borrowing	131.6	-40.3%	17.2	-86.9%	-72.8	
NAV	928.0	+12.0%	1,036.0	+11.6%	1,154.0	+11.4%

Source: SharePad

Currency changes aside, it would not surprise me to see analysts' forecasts for Halma revised upwards over the next couple of weeks.

The problem for investors with a business as good as this is the valuation that is attached to the shares. Halma trades on a one year forecast rolling PE of just over 26 times. This is punchy and prices in a lot of decent growth going forward. This might make it difficult for the shares to make much progress in the short-term, and therefore makes owning Halma shares a proposition for very patient long-term investors.

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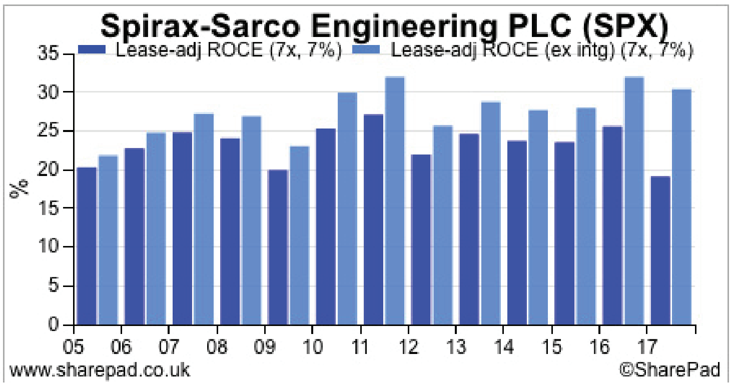
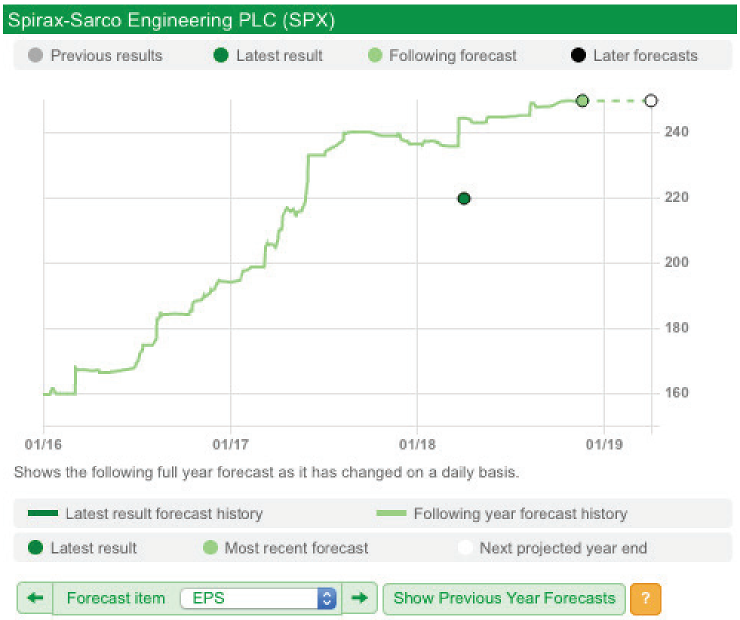
Spirax-Sarco

Spirax-Sarco (SPX) is one of the few businesses I like more than Halma. I did a detailed analysis of the business in my magazine column a few weeks ago, so won't get bogged down in details here. Like Halma, it is a problem-solving business, but it has an even better record of profitability and high returns on capital. The consistency of its ROCE is extremely rare.



Source: SharePad

Last week's trading update was very reassuring. The company said that, for the four months from June to October, its core steam and pumps businesses had maintained organic growth rates at the level seen in the first half of 2018. This means that both divisions have continued to grow at around 7 per cent and 9 per cent, respectively.



Source: SharePad

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Current forecasts look to be almost in the bag for 2018 having nudged up slightly throughout the year.

Spirax-Sarco Engineering PLC (SPX)

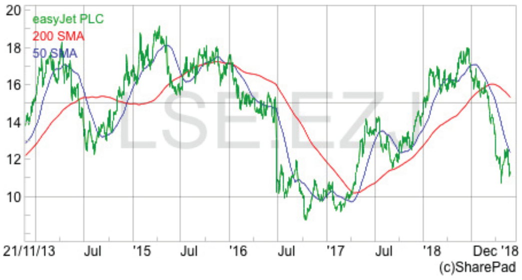
FORECASTS £ millions unless stated

Year	2018		2019		2020	
Turnover	1,142.0	+14.4%	1,199.5	+5.0%	1,260.2	+5.1%
EBITDA	300.0	+17.7%	317.3	+5.8%	335.6	+5.8%
EBIT	259.2	+29.2%	276.0	+6.5%	294.0	+6.5%
Pre-tax profit	253.0	+31.4%	269.8	+6.6%	288.1	+6.8%
Post-tax profit	184.9	+14.1%	197.8	+7.0%	210.1	+6.2%
EPS (p)	249.7	+13.7%	266.6	+6.8%	284.2	+6.6%
Dividend (p)	99.4	+13.6%	107.6	+8.2%	115.2	+7.1%
CAPEX	47.5	+23.7%	45.0	-5.2%	46.0	+2.2%
Free cash flow	155.7	+26.9%	175.2	+12.5%	184.0	+5.1%
Net borrowing	294.5	-21.2%	188.6	-35.9%	88.6	-53.0%
NAV	709.0	+16.5%	807.7	+13.9%	910.8	+12.8%

Source: SharePad

The outlook for 2019 is more uncertain as the estimates for global industrial production are lower than they were a few months ago. This revision, and the fact they were very highly rated, may explain why the shares have fallen from over £73 to £63 over the last month.

This has seen the valuation of the shares – as measured by a one year forecast rolling PE – come down from 28.2 times to 23.7 times. That is still quite a full valuation but it may be getting more reasonable for longer-term investors to consider buying the shares.



easyJet

From a customer's point of view I think there is a lot to like about easyJet. It flies to where people want to go to and tends to offer a fairly good service for a fair price. I am happy to pay more to fly with **easyJet (EZJ)** than Ryanair.

From an investor's perspective, things are not so clear. The airline industry is volatile – which creates volatile profits and volatile share prices. This tends to make airline stocks ones for traders rather than long-term buy and hold investors.

easyJet's share price has had a torrid 2018, falling by nearly a quarter. Judging by this week's full-year results, 2018 has not been a disaster in terms of profitability. Stripping out the recently acquired loss-making Tegel business in Berlin, profits were up nicely on 2017 and were slightly better than analysts' forecasts.

	2018	2017	Change Favourable/(adverse)
Total revenue (£ million)	**5,898**	5,047	16.8 %
Capacity (millions of seats)	**95.2**	86.7	9.8 %
Passengers (millions)	**88.5**	80.2	10.2 %
Load factor (%)	**92.9**	92.6	0.3 ppt
Headline profit before tax excluding Tegel (£ million)	**690**	408	£282 m
Headline profit before tax (£ million)	**578**	408	£170 m
Total profit before tax (£ million)	**445**	385	£60 m
Basic total earnings per share (pence)	**90.9**	77.4	13.5 penc
Proposed ordinary dividend per share (pence)	**58.6**	40.9	43.3 %
Headline return on capital employed (%)	**14.4**	11.9	2.5 ppt

Source: SharePad

This was a decent result considering that the company increased capacity by nearly 10 per cent, but its planes were fuller than last year as evidenced by the higher load factor. It received a bit of help in achieving this due to problems incurred by rivals such as Monarch, Air Berlin and Ryanair.

You can see from the table below that easyJet was able to lift its revenue per seat to offset rising fuel and other costs. You can also see that the Tegel operations are significantly loss making with lower yields (revenue per seat) and higher costs. easyJet is hoping to get the business to a position of breakeven next year.

£ per seat (reported)	**2018**	**2017**	**2018**	**2018**	**2017**
	Ex-Tegel		**Tegel**	**Total**	
Revenue	**63.09**	**58.23**	**40.69**	**61.94**	**58.23**
Headline costs excluding fuel	(43.00)	(41.27)	(51.45)	(43.43)	(41.27)
Fuel	(12.45)	(12.25)	(12.31)	(12.44)	(12.25)
Headline profit/(loss) before tax	**7.64**	**4.71**	**(23.07)**	**6.07**	4.71
Headline tax (charge)/credit	(1.47)	(0.96)	4.38	(1.18)	(0.96)
Headline profit/(loss) after tax	**6.17**	**3.75**	**(18.69)**	**4.89**	**3.75**
Non-headline costs	(1.03)	(0.26)	(8.12)	(1.39)	(0.26)
Non-headline tax credit	0.18	0.03	1.55	0.26	0.03
Total profit/(loss) after tax	**5.32**	**3.52**	**(25.26)**	**3.76**	**3.52**

Source: SharePad

As always, it is the outlook for the future which determines the direction of the share price. The first half of 2019 is looking quite difficult with yields expected to be lower. A further 10 per cent increase in capacity will also put some pressure on the company to keep its load factor high. Higher fuel prices are expected to reduce 2019 operating profits by between £50m-£100m.

easyJet PLC (EZJ)

FORECASTS £ millions unless stated

Year	2018		2019		2020	
Turnover	5,844.3	+15.8%	6,518.6	+11.5%	7,153.3	+9.7%
EBITDA	810.8	+33.1%	869.1	+7.2%	905.0	+4.1%
EBIT	589.0	+42.3%	630.3	+7.0%	674.9	+7.1%
Pre-tax profit	563.2	+46.3%	588.4	+4.5%	639.2	+8.6%
Post-tax profit	462.0	+42.2%	496.3	+7.4%	521.4	+5.1%
EPS (p)	116.9	+42.7%	126.1	+7.9%	130.0	+3.1%
Dividend (p)	54.2	+32.5%	61.9	+14.2%	67.6	+9.2%
CAPEX	1,186.0	+88.2%	899.7	-24.1%	1,009.8	+12.2%
Free cash flow	-386.3		39.7		-37.8	
Net borrowing	119.9	-53.9%	447.9	+273.6%	814.1	+81.8%

Source: SharePad

Looking further out, there are grounds for optimism that easyJet can become a more efficient airline as well as growing its ancillary revenues. The recent fall in the oil price may give it the chance to put cheaper fuel hedges in place for the next few years. More cost savings can come from its fleet management.

easyJet continues to benefit from a fairly young fleet with its 315 aircraft having an average age of seven years. It does have some flexibility with its orders and options for additional aircraft if demand softens. In buying Airbus A321 aircraft it will have 51 per cent more capacity than an A319 which gives it better route economics when flying out of capacity constrained airports. An A321 is also 9 per cent cheaper on a cost per passenger basis than an A319.

Growing ancillary revenues has been a notable success for easyJet with an 11.7 per cent increase in 2018. The company is also pushing into offering holidays to its customers and sees great potential for this to become a significant revenue and profit stream. I think this could be quite a promising venture given that easyJet flies to popular tourist destinations and would have the scale and IT systems to strike good deals with hotels.

As an aside, if you own shares in the very profitable company **On the Beach (OTB)** which essentially makes a margin on buying seats on planes and hotel rooms I think easyJet could pose a significant competitive threat to it.

Current forecasts by City analysts are suggesting a modest improvement in profits for 2019 with a pickup in 2020, presumably helped by Tegel moving into profit.

Trading conditions can change quickly with airlines, but I think easyJet shares look quite attractive at a share price of 1133p. They trade on a 2019 forecast PE of nine times, whilst offering a forecast dividend yield of 5.4 per cent, that is expected to be covered twice by profits.

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