

## Tune out from noise to become a better investor

12 March 2021

### It's most important to make quality decisions

*More isn't necessarily better when it comes to investment decisions. You do not need to be jumping around making decisions if you're in it for the long haul. Those investing towards a far-off horizon are best off not obsessing about interest rates and the economy, spending endless time on social media or constantly checking the value of their portfolio.*

#### Report by Phil Oakley

##### The benefits of tuning out

When it comes to most things in life, I'm a great believer that the quality of what you do is far more important than the quantity. Yet, we continue to live in a world which seems to think that more is better.

This is not true when it comes to investing. That's not to say that many good investors do not work hard and spend many hours researching companies. They do, but how much is too much and what benefits does it really bring?

Many hours of bad research will not give better results if it's focused on things that are not important. The 80/20 principle definitely applies to investing and keeping the discipline to stay focused on what matters can deliver good results without a lot of wasted hours and stress.

For me, what matters are a few key things and I've mentioned them before:

- Are you buying into a good business that gives customers what they need in a way that few competitors can copy?
- Is it resilient to economic downturns?
- Can it grow its revenues, profits and cash flows?
- Can its shares be bought at a reasonable price?

A lot of the information you need to answer these questions can be found in the annual reports of companies and their competitors as well as keeping abreast of what's going on in the world. This is an approach that has served investors like Warren Buffett and Terry Smith very well.

Once a stock has been bought, it is then left to its business results and the passage of time to do the rest. Oh, and you need a bit of luck.

All you then need to do is keep in touch with company reports from time to time and see if your rationale for investing was correct.

This is an approach for investors, not traders or speculators. You do not need to be obsessing about interest rates and the economy or spending endless time on social media or constantly checking the value of your portfolio.

This is all very simple stuff, but it can be surprisingly difficult to follow in practice because it's too easy to let the noise of events and share price movements get the better of your long-term interests. Doing nothing is hard.

One of the most important points that I try and get across to people these days when I am talking to investors is that the days of saving up for something like retirement and cashing in your portfolio when you finish working have gone for many.

Lots of us are now going to be relying on our investment portfolios for the rest of our lives. This means that with a bit of good fortune the investment time horizon is a lot longer than it used to be.

The good thing about this is that it means you can tune out from the noise and the volatility and stick to your guns. You have to accept that you will make mistakes from time to time and that shares will not always go up, but I think it is a much better way to invest.

*Continued on the next page...*

## Fantasy Sipp vs comparators

Portfolio % returns	1 month	Year to date	1 year	2 years	3 years
Vanguard S&P 500 ETF	-0.9	2.4	33.4	37.8	46.7
iShares MSCI World Acc	-1.2	1.6	31.5	31.5	36.3
Fundsmith Equity T Acc	-4.6	-1.1	22.3	30.5	47.0
Mid Wynd International Inv Trust PLC	-5.3	-1.8	30.8	42.3	45.2
iShares NASDAQ 100 UCITS ETF	-6.3	-2.3	47.9	73.1	83.6
LF Blue Whale Growth Fund I Sterling Accumulation	-7.8	-3.8	28.0	38.0	56.4
Martin Currie Global Portfolio Trust PLC	-9.5	-4.3	26.9	42.6	51.7
<b>Phil Oakley Fantasy Sipp</b>	<b>-3.1</b>	<b>-5.1</b>	<b>16.8</b>	<b>29.6</b>	<b>44.5</b>
Smithson Investment Trust PLC	-4.4	-5.9	36.9	45.7	
Scottish Mortgage Investment Trust PLC	-18.3	-7.6	102.0	132.0	139.0
Lindsell Train Investment Trust (The) PLC	-7.7	-9.3	31.9	7.0	50.7

Source:SharePad

## UK Quality shares vs comparators

Portfolio % returns	1 month	Year to date	1 year	2 years	3 years
FTSE All-Share – Total Return	3.2	4.7	17.8	5.2	6.9
Vanguard FTSE 100 ETF	3.6	4.6	15.6	1.8	4.2
Vanguard FTSE 250 UCITS ETF	1.6	4.3	24.0	16.4	13.2
Baillie Gifford UK Growth Fund PLC	-1.3	1.1	34.7	32.0	40.2
Castlefield CFP SDL UK Buffettology Fund General Accumulation	-2.4	-2.1	19.7	22.5	28.1
Finsbury Growth & Income Trust PLC	-1.6	-2.7	14.9	10.9	18.8
<b>Phil Oakley UK Quality Shares</b>	<b>-3.2</b>	<b>-3.4</b>	<b>11.0</b>		

Source:SharePad

## Companies round-up

The six companies this week are:

- Morrisons
- Domino's Pizza
- London Stock Exchange

- Costco
- Spirax-Sarco
- Forterra

## Morrisons



I could be wrong, but I don't think **Morrisons (MRW)** is going to become a growth business that will compound in value over many years. That said, I must admit to having a bit of a soft spot for it. I like the fact that it makes a lot of its own food and tries to cut out third parties from its supply chain, while its Market Street format in stores has long been liked by customers.

This is a company that has had many ups and downs since it bought Safeway back in 2004, but judging by its full-year results released on Thursday it is in a good place right now.

The results were impacted significantly by Covid-19, but the underlying picture of the business looks broadly encouraging to me.

Supermarkets have seen a nice boost to their sales as people have stocked up on essential items in lockdowns and bought items that they would have usually bought from other retailers that have been forced to close. Morrisons' like-for-like (LFL) sales excluding fuel were up by 8.6 per cent for the year and were up by 9 per cent in the final quarter.

The extra sales were offset by £290m of Covid-19 costs, but what's positive is that Morrisons is saying that it is getting some decent operating leverage on its food manufacturing assets. It has cut prices to make itself more competitive, with the result

that sales volumes increased faster than revenues. This produced extra profits that have been reinvested into the business to keep the process going.

Morrisons paid back £230m of business rates relief. If this and the Covid-19 costs are ignored then adjusted pre-tax profits would have increased by 5.6 per cent to £431m instead of more than halving to £201m. This compares with the £408m it made last year.

While the outlook is uncertain, the company remains confident that it will make more than £431m of pre-tax profits this year.

I've always believed that you learn a lot more about businesses when times are tough than when times are good. Companies tend to be quite candid in explaining what has gone on - and why - when they are going through a rough patch. Things that are hidden by good results can often be exposed when the tide turns.

A good example of this is with Morrisons' cash flow last year. Supermarkets are usually very good at generating cash flow. The main reason for this is that they buy goods from their suppliers on credit (say with 30 to 60 days payment terms) and sell most of them in just a few days. So they have the cash from sales before they have to pay for what they have sold.

Last year, Morrisons had a working capital cash outflow of £447m, compared with a £41m inflow the year before. This was due to it building up stocks so that it had enough availability, paying small suppliers immediately and a big negative working capital swing on fuel.

Fuel is a very low margin business, but is an important driver of footfall for supermarkets. It is also a significant driver of working capital cash inflow because there are not huge amounts of stock at any one time and this is turned into cash before it is paid for.

Lockdown has seen much lower fuel sales. Last year's sales fell from £3.7bn to £2.5bn. The January lockdown had a big negative impact, which meant Morrisons took a working capital hit of £347m on fuel at its year-end. This should sort itself out when life gets back to normal and, consequently, Morrisons should generate positive free cash flow in 2021-22, compared with an outflow of £450m last year.

Morrisons has been late to the party in terms of selling groceries online, but it seems to be doing a very good job with it now. Online sales tripled last year, while available capacity increased fivefold. The business is also profitable (but Morrisons did not give a profit figure) and profits are expected to keep growing.

Unlike its peers, Morrisons has several online growth initiatives which look very promising. It has its relationship with Ocado which is going well, as evidenced by the profits generated from in store picking that led to the reversal of a previous asset impairment in certain stores. It has now gone back into Ocado's Erith site where it has 30 per cent of the available capacity and therefore plenty of room for more growth.

In-store picking has increased from 33 to 197 stores and will roll out further, while click and collect is available from 450 stores.

The partnership with Amazon – “Morrisons at Amazon” – is going very well and offers same day delivery to Amazon Prime members from 50 stores currently. In these stores, Amazon orders already account for 10 per cent of total sales. A partnership with Deliveroo is also offering deliveries in as little as 30 minutes from 180 stores.

Both of these look promising. The benefits here are that the delivery assets are not coming from Morrisons, which allows it to make a gross profit margin on the food sales without tying up money in delivery. It will be interesting to see what fruits this will bear.

The outlook for wholesale food sales also looks good, with the benefit from extra McColl's store supplies coming through and the potential that may come from supplying the new Amazon Fresh stores.

I've written before about the possibility of Amazon buying Morrisons and this is a view that seems to be widely held. The compelling reason for it to do so is that Morrison's National network of stores can be turned into local delivery hubs for online and click-and-collect orders.

The delivery cost is the key weakness of the online grocery model and why no one seems to be able to make any decent profits from it. This may be solved with what is known as a “dark stores” approach where supermarkets – or parts of them – are turned into local fulfilment hubs for click-and-collect orders. Amazon is trialling this with its WholeFood stores in the US, while Costco is also trialling curbside click-and-collect services.

Unless delivery charges increase substantially, I struggle to see online groceries working well for supermarkets. Whether enough customers would be prepared to pay what it takes to generate acceptable profits is another matter. Click and collect looks a better option and I expect the market to move more towards this and local delivery. This means supermarkets with lots of stores may have the edge over a hub and spoke operator such as Ocado, which looks to have much less favourable delivery economics.

I think a takeover of Morrisons by Amazon is therefore a credible idea. Without it, Morrisons' shares are inexpensive at 177p and trade on a 2022F PE – which looks to have upgrade potential – of 12.7 times, while offering a trailing dividend yield (excluding special dividends) of 4 per cent.

## Morrisons forecasts

Year (£m)	2021	2022	2023
Turnover	17,594.10	18,196.20	18,492.10
Ebitda	978	1,095.70	1,128.90
Ebit	422.1	537.4	562.3
Pre-tax profit	439.7	439.3	457.1
Post-tax profit	254.4	332.7	351.9
EPS (p)	10	13.9	14.8
Dividend (p)	9.3	8.3	8.8
Capex	521.6	521.4	518.4
Free cash flow	-32.8	524.1	444.2
Net borrowing	2,563.30	2,240.20	2,154.50

Source: SharePad

## Domino's Pizza



Takeaway food sales have been a big beneficiary of lockdowns and this was seen with a pretty respectable set of full-year results released by **Domino's Pizza (DOM)** this week. Its comments that it had started 2021 strongly saw its share price react well, but as far as I'm concerned nothing has really changed for the outlook of this business: It still faces many challenges.



The heart of the problem as I see it is that there exists an inherent conflict of interest between Domino's and its franchisees, which is difficult to solve, so that both sides win.

I say this because Domino's makes the bulk of its profits from selling pizza ingredients to its franchisees. This is shown by the fact that of the £120m of earnings before interest, tax, depreciation and amortisation (Ebitda) the business made last year, £100m came from its supply chain. Only a very small amount of profit comes from the royalties on the sales paid by franchisees.

Domino's makes more profit by selling more ingredients. This requires its franchisees to sell more pizzas and grow the size of the system by opening more stores. This is where things get complicated.

Domino's franchisees are concentrated into a small number who own lots of stores and they have a lot of clout. They are grumpy because they feel that Domino's has been making too much out of them on food supplies. There has also been the issue of splitting territories when opening new stores, as this has taken sales from existing outlets and lowered profits.

Based on current LFL sales figures, it would seem that the damage done by "splitting" is now very small. Last year, LFL sales ex splits increased by 10.3 per cent or 9.3 per cent, including them.

The franchise dispute, which is holding back new store openings and future growth, is far from solved. Domino's has offered franchisees a higher food rebate, along with incentives and help with opening new stores. In return, the franchisees have to pay more into the national advertising fund to promote the business. At the moment, no agreement has been made.

My view is that Domino's may have to give away more of its supply profits to get franchisees on board and it doesn't currently want to do this. The stalemate looks likely to go on as it appears convincing both the parties that they can both win – or not lose – has not been possible yet.

The other key issue for investors is the ultimate growth potential of the business now that it is almost back to being a UK and Irish business. There's also the uncertainty as to what happens to sales when pubs and restaurants eventually reopen.

It seems that Domino's may be scaling back its growth aspirations. It is now targeting around 1,400 stores, compared with 1,600 not so long ago, with system sales of between



£1.6bn and £1.9bn. This compares with 1,201 stores and system sales of £1,348m in 2020.

Competition has ramped up. Just Eat, Uber Eats and Deliveroo are growing faster because it's easier for them to add restaurants rather than build them. All the same, this has meant that Domino's has been losing market share.

That's not to say that Domino's does not have many things going for it. It has a great brand and is vertically integrated with a well-invested supply chain. From my experience, its mobile ordering app is very easy to use, while its delivery performance is way ahead of the aggregators who are using local delivery people to deliver from many different restaurants. These are decent competitive advantages.

However, I find it interesting that Domino's CEO stressed that it needs to improve customers' perception of the value for money that it offers. I'd agree with this as no one in their right mind would pay full menu prices at Domino's and the fact that 91 per cent of orders are on promotion backs this up. Even so, feeding a family of four from Domino's is not cheap.

Domino's is stuck in a rut. It is a good and very profitable business, but one with a very uncertain and challenging growth outlook. This is reflected in its share price trading in a range for the past five years without breaking out.

At 340p, the shares trade on 18.6 times 2021F EPS, which looks fair enough. I'd still prefer to own the parent franchisor Domino's Pizza Inc (NYSE:DPZ) and have its shares in the Fantasy Sipp.

## Domino's Pizza forecasts

Year (£m)	2021	2022	2023
Turnover	545.2	566.6	587.8
Ebitda	122.6	131.7	141.1
Ebit	107.8	113.3	128.3
Pre-tax profit	105.5	110.6	122.3
Post-tax profit	87.9	91.9	86.5
EPS (p)	18.3	19.4	35.2
Dividend (p)	10.3	9.8	21.6
Capex	15	23	21.5
Free cash flow	66.5	78.9	91.8
Net borrowing	295.7	212.6	0.4

Source:SharePad

## London Stock Exchange Group



Back in 2004 I read a book called *The Number*. It was largely about companies' and the professional investors' obsession with short-term profit and the lengths that businesses would go to to "make the number" that people expected.

There's a good reason for this. Any company that fails to hit analysts' forecasts, or gives grounds for thinking that it will, often sees its share price getting a proverbial kicking.

This was the experience of **London Stock Exchange's (LSEG)** shares last week and earlier this week, which has seen its shares fall by over a fifth.

Its full-year results were alright, but nothing more than that. Sales were up by 3 per cent to £2,124m, with adjusted operating profit up by 5 per cent to £1,118m. Its Information Services business – which includes the FTSE Russell indices business and all the data that comes with it – had a steady year with post trade doing very well due to strong activity in derivatives clearing and an exceptional performance from net treasury income due to huge amounts of government bond issuance. Capital markets also did quite well on the back of strong primary and secondary markets in equities and fixed income.

Yet, the shares sold off because analysts did not like the guidance on how much money the company was going to spend and invest in integrating Refinitiv – a global financial data and workstation business – into the group. The estimate of £1bn – of which £850m is investment spending in IT to drive growth – was higher than expected. It has led some analysts to worry that investors may have to wait before Refinitiv is making 50 per cent Ebitda margins from the 44 per cent it made last year.

This may be true, but for me it is missing the point. The Refinitiv deal is transformational and very positive for the London Stock Exchange. It moves the business towards highly

profitable data and analytics revenues, which are backed by subscriptions away from volatile and less predictable stock exchange-related business. The deal stacks up both strategically and financially in terms of the returns it can provide for shareholders.

With Refinitiv, LSEG becomes the number two global market data provider and the number one provider of direct data feeds. It remains the number one provider of clearing services in interest rate derivatives and foreign exchange, while retaining a strong and leading position in equities, fixed income and foreign exchange trading on electronic platforms. In short, this is a business with very strong competitive positions and I think there's a lot to like about it.

The business is very well placed to grow its revenues and profits. It will take a bit of money to deliver this, but it is very well exposed to the big growth in demand for data, analytics and workflow services across wealth management, banking and trading businesses.

There is a decent cross-selling opportunity with its existing FTSE Russell business, which continues to benefit from the growth in passive investing and ETFs. Government debt issuance looks like being sizable for many years to come which should help its net treasury income business.

## London Stock Exchange Group forecasts

Year (£m)	2021	2022	2023
Turnover	7,091.20	7,604.60	7,858.70
Ebitda	3,351.80	3,684.30	3,889.90
Ebit	2,498.40	2,846.00	2,981.60
Pre-tax profit	2,281.80	2,524.30	2,644.80
Post-tax profit	1,589.80	1,900.90	2,046.40
EPS (p)	287.1	324.3	352.2
Dividend (p)	84.4	94	108.4
Capex	646	664	680.7
Free cash flow	1,457.50	1,462.30	2,075.00
Net borrowing	8,033.40	3,959.40	1,719.90

Source: SharePad

While I accept that the valuation of the shares had perhaps got a little bit ahead of itself before the results, the current share price fall looks to be overdone. This is a very good business with lots of high-quality characteristics that tend to command high valuations on stock markets right now.

At 7,760p, the shares trade on a 2021F PE of 27 times with reasonable expectations for organic growth and cost savings. I'm happy to keep the shares in both fantasy portfolios.

## Spirax-Sarco



For me, **Spirax-Sarco (SPX)** is one of the best and most resilient businesses listed on the London market.

Its three main businesses – Spirax-Sarco Steam, Electric Thermal Solutions (ETS) and Watson-Marlow pumps – have many similar characteristics, which make them very attractive to customers and therefore investors.

The company's direct selling model has seen it become deeply entrenched with its customers' businesses, while continued product innovations has kept sales and profits growing. Its resilience is backed by the fact that half its revenues come from regular repairs and maintenance services. This has given it very high and stable profit margins over many years.

In essence, they are all problem solvers and/or process enablers. They make businesses more efficient and improve productivity, while delivering benefits such as lower energy costs and environmental benefits such as lower CO<sup>2</sup> emissions and water use.

The key benefit to investors is that the products and services tend to be part of customers' day-to-day operating expenditures rather than capital expenditure budgets which can get turned off in recessions. Over the long term, this is a business that tends to track growth in industrial production which has been steadily rising.

The resilience was shown in this week's full-year results for 2020. While the Steam business and ETS took a bit of a battering, profit margins remained high. The Watson

Marlow business had a great year on the back of sales to BioPharma companies, which have seen buoyant demand for pumps used in the production of vaccines.

Overall sales and operating profits fell to £1,193m and £270.4m, respectively, with margins remaining very healthy at 22.7 per cent. The annual dividend was increased by 7 per cent to 118p per share – its 53rd consecutive annual increase. How many companies have done this?

While the current strength of sterling is not helpful, the company is entering 2021 in a very good position with long order books which should see strong sales growth. While some cost savings made in 2020 will not be repeated, the company is guiding to a 30 per cent drop through to profits from the sales growth it expects. This should see profit margins improve.

### Spirax-Sarco forecasts

Year (£m)	2020	2021	2022
Turnover	1,197.00	1,283.80	1,345.30
Ebitda	309.5	344.2	368.4
Ebit	259.1	296.4	314.5
Pre-tax profit	251.4	287.6	304.8
Post-tax profit	181.1	208	221.7
EPS (p)	244.6	281.9	294.7
Dividend (p)	114.5	125.1	132.4
Capex	54.1	63.7	65.5
Free cash flow	170.2	176.6	203.7
Net borrowing	253	169.6	93.6

Source: SharePad

Spirax-Sarco shares have been very expensive for a long time and remain so. At £115, they trade on a 2021F PE of 40.8 times, which will put off value-conscious investors. I see it as a scarce asset that is a rare gem for UK investors with a record for dependability that is hard to match. It's a share that I would be happy to own for the long term and it remains in both my fantasy portfolios.

*Continued on the next page...*

## Costco



**Costco (NASDAQ:COST)** is a business which has a lot of fans among consumers and investors. Having first looked at this business last year, I can see why and I'm happy to have the shares in my Fantasy Sipp portfolio.

I see Costco as a rare example of a business that is run for the benefit of all its stakeholders. Its membership warehouse business, which is based around concentrated buying into around 1,500 products, delivers great value for its customers, while producing resilient and growing profits for its shareholders.

It achieves this by treating its suppliers well and paying its workers good wages with good benefits.

It too fell victim to the cult of the "number" last week. Second-quarter sales were better than expected, but EPS was lower than expected due to the payment of higher Covid-related wages. These wages have been replaced by a permanent \$1 per hour pay rise to all entry level workers to \$16-\$16.50 per hour, with similar increases in its overseas operations.

This may depress profits and analysts' forecasts for a while, but I prefer to look at it as a shrewd investment in its key assets – its employees. Far too many employers are short-sighted and just treat their workers as a number in a spreadsheet that is to be minimised at all costs. It is refreshing to see a company that invests in the morale of its workforce and gets more out of them as a result, and Costco has not been afraid to pay higher wages for many years now, while growing its revenues and profits.

There's no doubt that Costco has been a big beneficiary from lockdowns and associated stockpiling as evidenced by an impressive 12.9 per cent growth in second-quarter LFL

sales. This will undoubtedly slow as it comes up against tough comparatives later in the year.

Membership income grew by 2 per cent and the company now has 59.7m membership households and 108.3m cardholders. The retention rate in the core US and Canadian business improved slightly to 91 per cent highlighted the high levels of customer loyalty it benefits from.

The company has made some decent progress on its gross margins – especially with lower wastage on fresh produce – and should benefit from lower Covid-related costs going forward. It also continues to benefit from its vertical integration in areas such as poultry, meat processing and bakery, as well as building up its own in-house logistics.

E-commerce sales increased by 75 per cent as its online grocery delivery business continues to win customers. Costco will not sell online at a loss and charges a significant delivery fee (£5.99 in the UK) for its grocery deliveries. It is currently trialling a curbside delivery business in the US which is showing encouraging results.

Costco still has tremendous potential to roll out new warehouses in its core US market, as well as internationally, but is not doing so aggressively right now. It has proven itself to be very good at getting its existing stores to sell more by offering great value to customers who spend big whenever they visit.

This is a business model that can keep customers and shareholders happy, in my view. At \$329, the shares trade on a punchy 33 times 2021F EPS, but the shares' long-term compounding potential makes them reassuringly expensive.

## Costco forecasts

Year (\$m)	2021	2022	2023
Turnover	186,310.40	198,218.30	212,194.10
Ebitda	7,919.70	8,577.90	9,314.30
Ebit	6,159.80	6,698.80	7,312.50
Pre-tax profit	6,045.10	6,637.40	7,624.90
Post-tax profit	4,412.90	4,834.80	5,262.80
EPS (¢)	992	1,091.80	1,230.10
Dividend (¢)	288.2	319.1	312.3
Capex	3,130.50	3,202.90	3,335.00
Free cash flow	3,886.10	4,962.30	6,084.20
Net borrowing	-3,903.50	-6,962.00	-9,265.00

Source: SharePad



## Forterra



The first half of 2020 was not a good time for making and selling bricks and concrete blocks. However, in a more normal world, **Forterra (FORT)** has a very nice business in doing this and saw sales recover strongly in the second half of the year.

It is a cyclical business, but brick makers such as Forterra are sitting on substantial reserves of clay that cannot be created out of fresh air. The UK market has a government that wants to support new homebuilding, while the market is undersupplied by domestic brickmakers. This bodes well for Forterra over the medium term.

The cyclical nature brings with it a lot of risks. This is because brick-making is a hugely operationally-gearred business. The manufacturing plants need to be well loaded with plenty of orders to cover the substantial fixed overheads. This delivers growing profits, with good margins and return on capital employed (ROCE) in good times, but horrible falls in profitability when times are bad. Forterra has nine brick manufacturing facilities that can make a combined 590 million bricks a year and they need to be kept busy.

2020 showed that operational gearing was working against the company and its investors. Brick production fell by 35 per cent, with sales falling by 23 per cent to £292m (as some sales were met from stocks), but profits fell by 68 per cent to £20.8m.

The concrete block business was more resilient than the bricks business, but the hollowcore concrete floor business used in flats and office blocks has been mothballed due to expected weak demand going forward.

The sale of bricks from stocks allowed Forterra to keep selling, while competitors were closed. It also saw a reduction in inventory and good cash generation.

Looking further out, there are grounds to be optimistic about this company. Its new manufacturing plant in Leicestershire can take market share from imports and should contribute an additional £16m of profits, which would represent a good return on the £95m cost. It remains due for commissioning in late 2022.

The company also retains the benefit of a decent exposure to the refurbishment and extension market with its London Brick brand, which has been used in around a quarter of existing homes in the UK.

Forterra also has high hopes for its new Surebrick, which is used in the offsite construction of the front of houses – a procedure that is increasingly used by housebuilders.

## Forterra forecasts

Year (£m)	2021	2022	2023
Turnover	339.5	373.3	405.8
Ebitda	60	76.9	87.8
Ebit	42.2	59.3	66.4
Pre-tax profit	39.1	55.8	67.2
Post-tax profit	31.4	44.3	51.1
EPS (p)	14	19.8	22.3
Dividend (p)	6.2	8.6	9.6
Capex	53.5	34.3	16.3
Free cash flow	-3.1	23.6	48.4
Net borrowing	15.6	10.7	-0.5

Source: SharePad

With a bit of good fortune, I can see the company and its shares doing quite well over the next few years. Once capex spending for the Leicestershire plant has finished, it should also start generating plenty of free cash flow, which will pay down debt and could allow special dividend payments.

The other thing to bear in mind is that this business has changed ownership a few times over the years given its attractive clay assets and the potential to be very profitable. If you can cope with the inevitable ups and downs, it's a nice business to own a slice of.

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ISSN 0261-3115.