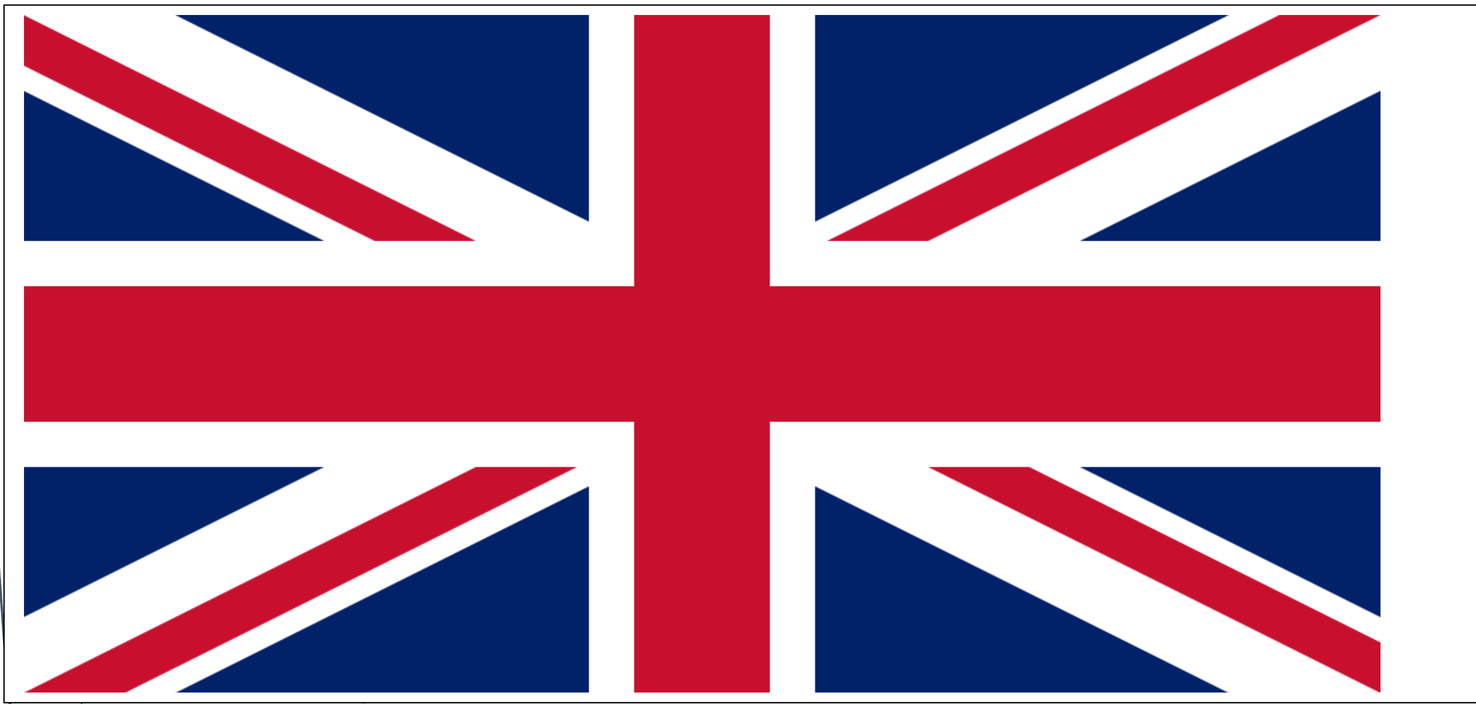
OCTOBER 2019

FTSE 30 Index

Stock by stock analysis



Sven Carlin
STOCK MARKET RESEARCH PLATFORM

FTSE 30 – Complete individual stock analysis (one by one)

When it comes to investing, I tend to agree with Charlie Munger: "All you need in life is a few good investments". That's it.

However, the difficulty comes in finding a few great investments, separating the good from the crowd and, the most difficult part, buying big when the price is right. I believe that one can buy big when the price is right if one knows:

- What is one's expected investment return? If you wish for investment returns of 10%, you need to find great businesses that create at least 10% of their stock price in new value for the owners.
- What is a 'great business'? For me, a great business, is a business that has a competitive advantage, is likely to continue to expand thanks to it, operates in a sector with positive structural tailwinds and has a strong balance sheet that allows it to weather all kind of short-term economic or other pressures.
- Where to look for great businesses that offer double digit business yields? Well, if it would be easy to find them, everybody would find them. Therefore, the only option is to go through long lists of businesses, one by one. Fortunately, the above criteria quickly eliminate 99% of the candidates so it actually isn't an endless quest. All you need is a few.

With the above motto; 'all I need is a few', I will analyse all the businesses included in the FTSE 30 Index, one by one, to find those that might fit the above strict criteria. I am happy in finding a few good businesses per year. I put those on my covered businesses list and closely follow them. When their price gets to the right level, I buy. This makes investing much easier in comparison to chasing various possible trades or short-term benefits. In a world where most invest in index funds or quick trades, nobody looks at the potential a business will have in 2025. This is our advantage and therefore meticulous research is what can lead to extraordinary returns over the long-term. Let's start.

Numbers don't tell the whole story when it comes to investing, but usually help. Therefore, here you have an excel file with the numbers for the 30 stocks, from return on equity to PE ratios alongside industry averages. Data is compiled from various sources and should be only used for indicative purposes.

Company Name	Exchang	Ticker	Market Cap	Revenue	Shares	Net	Net	Cost of	Quick	Selling,	Depreciation,	Account	Cash	Cap
Associated British Foods	LSE	ABF	17.6	15.43	792	998	5.16	4.89	0.95	2,279.00	569	1,438.00	1,152.00	
BAE Systems	LSE	BA.	17.3	16.33	799	974	9.17	7.57	0.95	0	400	5,924.00	1,464.00	
BP	LSE	BP.	98	22.6	3,404.00	6,831.00	2.51	3.36	0.77	9,140.00	13,633.00	18,747.00	15,921.00	-13,2
British American Tobacco	LSE	BATS	60.9	24.34	2,293.00	5,879.00	24.6	6.48	0.39	24.6	1,011.00	3,857.00	3,229.00	
BT	LSE	BT.A	20.2	24.36	9,882.00	1,625.00	8.82	5.05	1.05	2,415.00	2,704.00	1,757.00	1,645.00	-2,6
Burberry	LSE	BRBY	7.7	2.75	410	344	12.47	10.04	1.79	1,443.00	117	121	887	
Compass	LSE	CPG	30.6	24.1	1,586.00	1,132.00	4.89	6.47	0.77	6.93	547	291	617	
Diageo	LSE	DGE	73.2	12.48	588	3,084.00	19.87	4.94	0.56	1,993.00	365	2,120.00	909	
Experian	LSE	EXPN	21	3.78	908	535	14.29	4.23	0.44	263	336	812	114	
GlaxoSmithKline	LSE	GSK	81.5	31.5	2,482.00	4,395.00	13.98	4.71	0.48	10,139.00	3,126.00	6,710.00	4,024.00	-1,9
International Consolidated	LSE	IAG	10.1	17.6	1,855.00	2,020.00	9.09	4.3	0.81	934	1,098.00	1,748.00	4,180.00	-2,4
ITV	LSE	ITV	5.5	3	4,025.00	454	14.38	7.31	0.78	?	117	430	83	
Land Securities	LSE	LAND	7.1	7.64	741	-119	-15.7	5.27	0.41	?	0	406	14.17	
Legal & General	LSE	LGEN	16.4	46	1,192.00	2,313.00	4.07	6.62	0	194	1.58	222	0	
Lloyds Banking Group	LSE	LLOY	42.2	30.8	17,506.00	4,304.00	13.96	3.6	0	0	2,344.00	bank	bank	-3,2
Man Group	LSE	EMG	2.3	0.775	1,538.00	210	29.47	8.97	2.35	132	82	345	167	
Marks & Spencer	LSE	MKS	3.9	10.4	847	33.8	0.32	5.15	0.35	543	552	120	289	
Melrose Industries	LSE	MRO	10	11.1	4,858.00	-462	-2.75	6.94	0.68	2,057.00	274	2,137.00	331	
National Grid	LSE	NG.	31.3	15.09	696	1,533.00	10.1	4.66	0.83	0	1,610.00	1,926.00	255	-3,9
Next	LSE	NXT	8.6	4.08	133.2	586	14.27	7.95	1.18	709	121	1,155.00	150	

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Contents

Conclusion

It is actually very funny, the only good businesses of the FTSE 30 index that have some form of competitive advantage, are in a positive structural trend and are more likely to turn out as good long-term investments are not British, but American businesses; Compass, Diageo and Experian (most of revenue come from North America).

The other 27 members of the index are mostly old companies, haven't managed to grow at all over the past decade, are paying miserable dividends that are relatively high but not even close to enough for me and the outlook is bleak, especially if we hit a recession.

On the good businesses, well, as expected those are expensive with PE ratios above 30 and single digit growth rates.

I hope I will find something better when looking at the FTSE Small Cap Index. To get that, subscribe to my newsletter.

About the author – Sven Carlin

Sven Carlin is an independent stock market researcher running the Sven Carlin Stock Market Research Platform and the Invest with Sven YouTube value investing channel. More info can also be found on https://svencarlin.com/.

Associated British Foods – ABF

ABF is a British multinational food processing and retailing company, we could call it 'food and Primark'. The price earnings ratio is around 20, the dividend yield is around 2% and I must say, the company doesn't look like anything special.

Segmental Analysis

By business

	Revenue		Profit		Margin		ROCE (annualised)	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 %	2018 %	2019 %	2018 %
Grocery	1,721	1,672	167	159	9.7	9.5	26.5	27.0
Sugar	769	881	1	106	0.1	12.0	0.1	14.1
Agriculture	665	614	15	24	2.3	3.9	8.3	14.1
Ingredients	744	716	64	63	8.6	8.8	15.7	15.9
Retail	3,630	3,477	426	341	11.7	9.8	29.4	25.3
Central costs	-	-	(34)	(29)	-	-	-	-
Continuing businesses	7,529	7,360	639	664	8.5	9.0	19.0	20.9
Disposed businesses	3	62	-	(16)				
Total	7,532	7,422	639	648	8.5	8.7	19.1	20.4

10

Source: ABF

The food business should be resilient to economic influences but retail, where we mean Primark, will probably see the same fate as Zara or H&M at some point in time. The business of fashion is ruthless. They are constantly expanding in Europe, but so did others and I don't see them having a competitive advantage. On the contrary, it is still a competitive disadvantage because the name of the game is 'cheap'.

Primark to pay £6m more to victims of Rana Plaza factory in Bangladesh

Retailer agrees payout weeks before anniversary of tragedy, in move that raises hopes of spurring donations from other firms

▲ Primark's payout will go directly to 581 workers, or their families, employed by its supplier based at the collapsed Rana Plaza building in Dhaka. Photograph: Munir Uz Zaman/AFP/Getty Images

Primark is to pay out a further $10m (£6m) in compensation to victims of the Rana Plaza factory collapse in Bangladesh weeks before the anniversary of the disaster in which more than 1,100 garment workers lost their lives.

Source: Guardian

Like any big company, ABF will see its ups and downs over time, pay the dividend, perhaps even grow it, but you can't expect miracles and you can't say this is a wonderful business to hold forever. Hopefully sugar will rebound at a certain point, but demographics and competition are not a tailwind for ABF given that most of its revenues comes from UK and EU.

BAE Systems – BA (LON)

BA is a British multinational defence, security, and aerospace company. So, what would benefit this would be wars, unfortunately.

Source: BAE Systems

The PE ratio around 12 is relatively low, the dividend on the higher side, but over the last 10 years revenues didn't grow at all and for the sake of our children I hope the trend continues.

BAE Systems PLC BAESF

Financials

Export | Ascending

	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	TTM
Revenue GBP Mil	20,374	20,980	17,770	16,620	16,864	15,430	16,787	17,790	18,322	16,821	17,334
Gross Margin %	—	—	—	62.7	61.6	60.3	58.0	59.8	61.4	65.2	—
Operating Income GBP Mil	2,262	1,806	1,601	1,343	629	1,097	1,304	1,593	1,328	7,359	7,441
Operating Margin %	11.1	8.6	9.0	8.1	3.7	7.1	7.8	9.0	7.2	43.7	42.9
Net Income GBP Mil	-67	1,052	1,240	1,068	168	740	918	913	854	1,000	1,324
Earnings Per Share GBP	-0.01	0.30	0.36	0.29	0.05	0.23	0.28	0.28	0.26	0.31	0.41
Dividends GBP	0.10	0.18	0.20	0.21	0.22	0.20	0.20	0.21	0.21	0.22	0.22
Payout Ratio % *	—	63.8	70.2	65.1	67.0	349.8	92.8	71.1	64.0	92.4	53.6
Shares Mil	3,532	3,471	3,382	3,258	3,248	3,175	3,171	3,185	3,197	3,201	3,197
Book Value Per Share * USD	2.10	2.41	2.49	1.68	2.15	1.35	1.00	0.99	1.46	2.31	2.18
Operating Cash Flow GBP Mil	1,633	962	482	2,173	-110	669	628	1,229	1,897	1,200	1,365
Cap Spending GBP Mil	-525	-427	-383	-402	-269	-322	-413	-490	-476	-497	-508
Free Cash Flow GBP Mil	1,108	535	99	1,771	-379	347	215	739	1,421	703	857
Free Cash Flow Per Share * USD	0.51	0.24	0.45	0.88	0.10	0.17	0.04	0.22	0.42	0.28	—
Working Capital GBP Mil	-3,336	-4,042	-3,894	-1,939	-2,276	-2,068	-821	-270	609	269	—

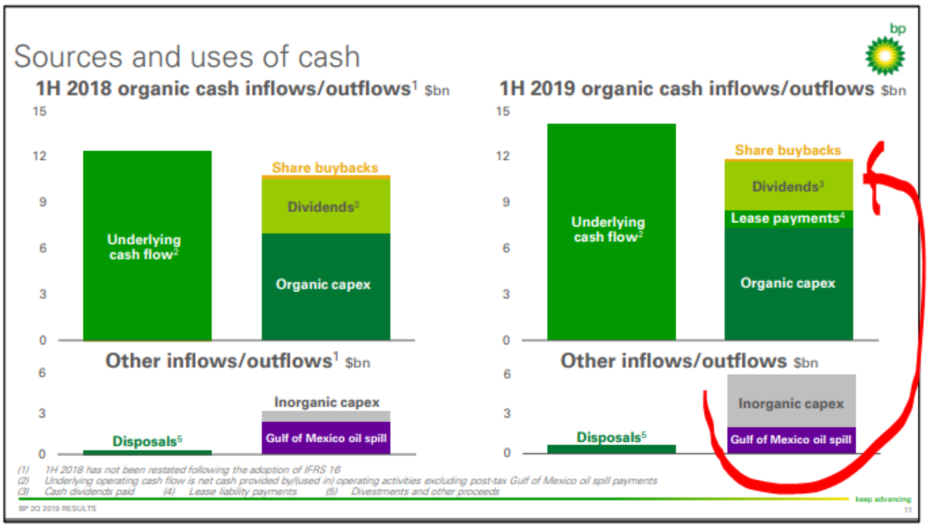
* Indicates calendar year-end data information

Source: Morningstar

I don't know what might turn this into a great investment, hopefully not a war, but from what I see, nothing special, a good defensive company that will hardly give me double digit returns over the long-term. Plus, they have pension liabilities of £4.3 billion. That will have to be covered someday, if we have a market crash or bond crash, the gap can be even larger and you can see 5 years of earnings disappear in a few months. Too risky and I don't like wars.

BP – BP

BP's stock didn't go anywhere over the last 20 years. All that investor got was the dividend and a big scare in 2010 when the Gulf of Mexico disaster happened. The dividend yield is high, above 6%, but is not well covered by earnings.



Source: [BP Q2 Presentation]

They are still spending $15 to $20 billion per year, which is necessary to keep oil supply in place, but they expect oil prices above $55. This might be the case in the future but also might not. Their expected return on capital is 10% if oil is above such a level.

Like other oil companies, they are investing in renewables, but that is what I call greenwashing. It is just a small part of what they are still investing in oil.

BP is an investment in oil. I believe that with the development on technology, other energy sources might become cheaper in the future and lower the price of oil. This would put BP in a tough situation and perhaps lead to another decade or two of zero returns for shareholders.

British American Tobacco – BATS

The surviving tobacco stocks have been one of the best investments over the past 20 years. Despite the recent 50% pullback, BATS is still a 5 bagger since 1999. When you add the dividend, you are at double digit yearly compoundable returns.

However, the last few years have been terrible for those invested as the trend of M&A growth alongside efficiency improvements increasing profitability despite lower demand, finally came to an end for tobacco stocks. This is what usually happens with cash cows.

Suddenly, companies renowned for their high profitability and stable dividends found themselves promising all kinds of growth stories like being the 'Modern Oral Company'.

Source: [BATS Investor Presentation]

What will the long-term profitability be of all those growth stories it is unknown, perhaps it is just smoke and the good times have passed. Investing in negative secular trends can be really painful and certainly doesn't fit the 'you need only a few good investments in life' mantra. It might have been the case 20 years ago, but that opportunity is gone now. Let's find similar ones, but for the next 20 years. P.S. it might be trading at book, but there are £124 billion of intangibles (watch for that when the impairments begin).

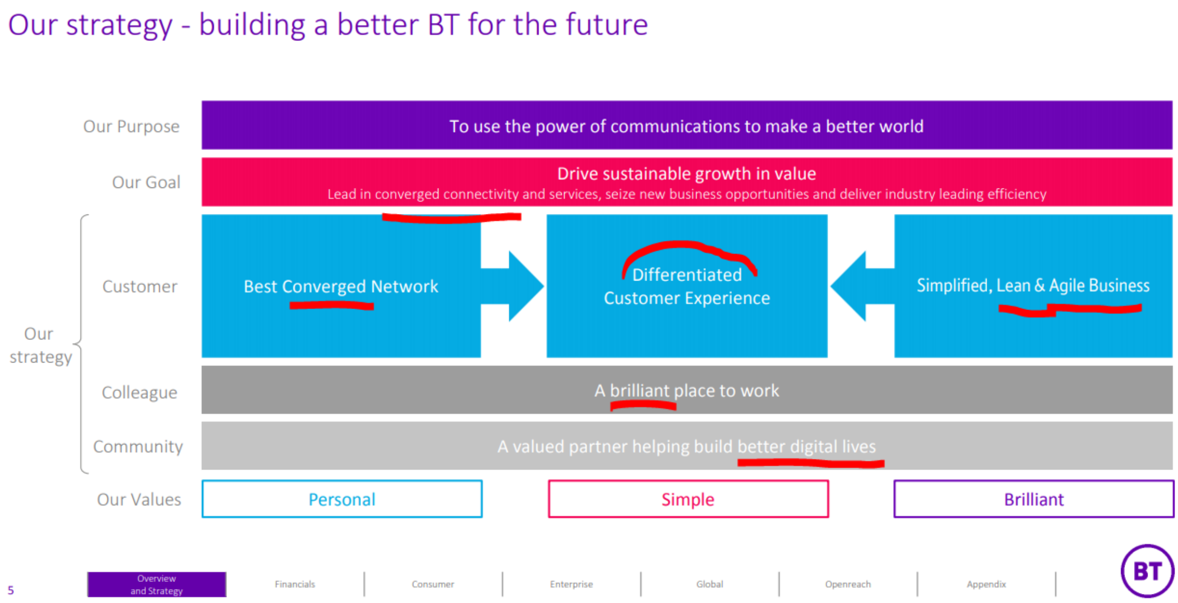
BT Group – BT.A

BT Group plc is a British multinational telecommunication holding company. This is another fallen angel, down more than 50% from its 5-year peak.

The answer here is simple; We communicate more and more, we eat up data as never before, we are online all the time, but how do we expect to do that? Well, we expect it to be free or at least an all-in bundle at a flat monthly price alongside a fancy smart phone.

Well, our expectations create a highly competitive environment among providers where there is no differentiation, it is all about cost. Consequently, businesses have low margins and high capital expenditures. If you don't offer 5G at £9.99 per month like other competitors, you are out my friend.

BT's strategy is full of nice words like 'converged connectivity', 'differentiated experience', 'lean & agile', 'digital lives' but, when it comes to investing, it is growth and competitive advantages that matter, not nice words.



Source: [BT Group]

Like with the others above, this might do good over a period of time, might do even worse. One should not focus on the relative when it comes to investing, you constantly chase opportunities, sometimes you win, sometimes you lose, but at the end you lose because you miss out on those really great investment where all you have to do is SOMA*.

BT might have a nice dividend, but what if we all communicate for free in 5 years, what are they going to invent, at what cost? Too risky and such investments really lack the unlimited upside which is one of the key contributors to returns for long-term investors.

*If you were wondering what SOMA means – sit on my ass – investment style.

Burberry – BRBY

Burberry Group PLC is a luxury fashion house. Finally, a stock that did well over the past decade and that is close to all-time highs. The company gets 41% of sales form Asia Pacific and probably even more given the Asian tourists that shop in the rest of the world.

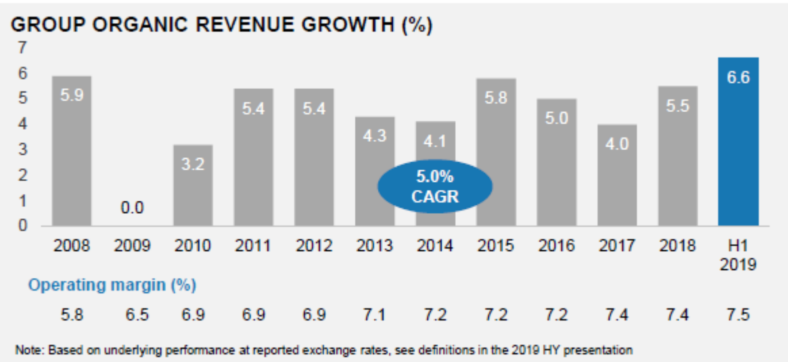
The company looks good, high gross margin that leads to good cash flows that can be redistributed to customers in the form of dividends and strong buybacks. However, as fashion is a ruthless business, as Burberry went up over the last decade, it might equally fall when some investments go south, customers go for different brands etc. Fashion changes fast.

The earnings and cash flows create a 5% yield on the current market cap, something too low for the long-term as I don't know what competitive advantages can a company like Burberry have. Will Burberry be the trending brand in 2027 or something else? I don't know and I like to sleep well when invested. Thus, no margin of safety here, anything can happen.

Compass Group Plc – CPG

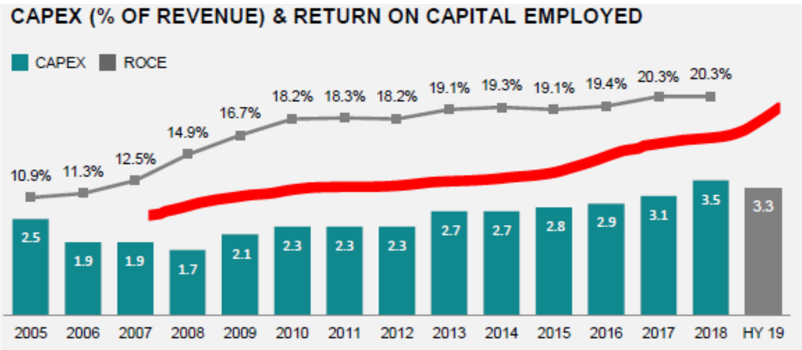
Compass Group plc is a British multinational contract foodservice company. Now, when you see a stock price chart like the one below, it looks like this could be a business with a competitive advantage, profitable at the same time and can grow with a high return on invested capital. Let's see if I am right.

I am right on the growth, revenues are up 50% over the past 5 years and the company continues to grow.



Source: [Compass Group Factsheet]

I am right on the profitability too, free cash flow is high and growing alongside revenue. Thirdly, return on invested capital is close to 20% which is a staggering feat.



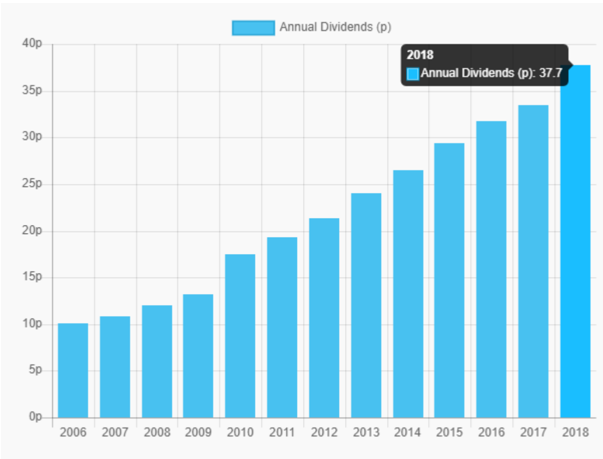
Source: [Compass Group Factsheet]

The market is still pretty segmented so there is a lot of room for growth. Within such a business, scalability is what counts as you can make things much more efficient by procuring on scale, preparing etc.

Source: [Compass Group Factsheet]

The only issue is the PE ratio, it isn't at 10 like with many companies we discussed, it is at 30. However, if they grow 50% over the next 5 years, the PE ratio compared to the current price will be at 20 (current price 30, earnings 1 – in 5 years earnings 1.5), if they continue on the same pace, the PE ratio will be at 13.3 in 10 years etc (in 10 years earnings 2.25). It is highly unlikely that a high ROIC growth stock trades at a PE ratio of 13.3, so the stock price should at least double in the next decade, and do the same afterwards if things remain the same. Add the 2% dividend to that, and you should have yourself a nice return from a quality business where you can probably sleep well at night.

The competitive advantage comes from the fact that you can't simply create a competitor, you need to source your food, find how to prepare it, have the scale to deliver it, have the reputation among customers etc. It is likely that the below dividends will continue to grow.



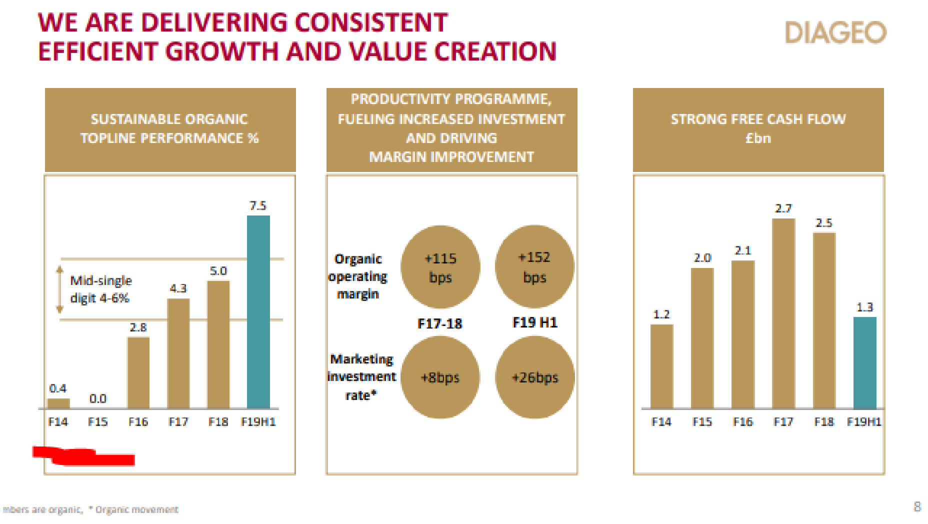
Source: DividendMax

Now, the risks are that compass doesn't grow as expected or that acquisition prices increase. Or than it grows slower from year 10 onwards when the market gives it a PE ratio of 15, not 25. So, there are plenty of moving factors to measure, but this is a good business, compared to the one's we analysed so far. Sheet 2 of the excel file has my model for the investment.

Diageo Plc – DGE

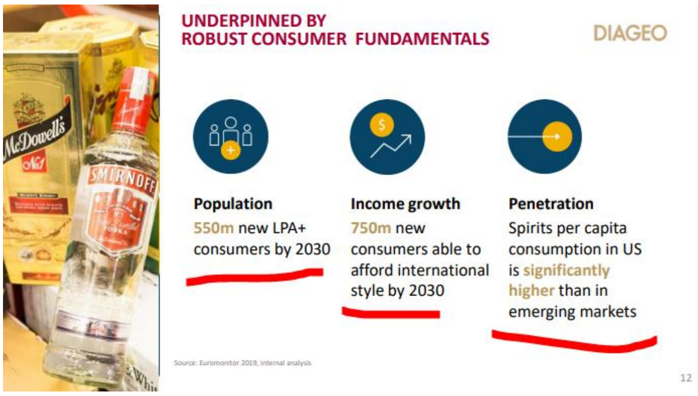
Diageo plc is a British multinational alcoholic beverages company. It is a similar story to Compass with the stock price marching up and up.

They are growing fast, but what I want to point out here, usable also for Compass, is that you buy such investments where there are temporary issues like the slow growth of 2014 and 2015. The stock only started to go up in 2017 even if all years were very profitable.



Source: Diageo

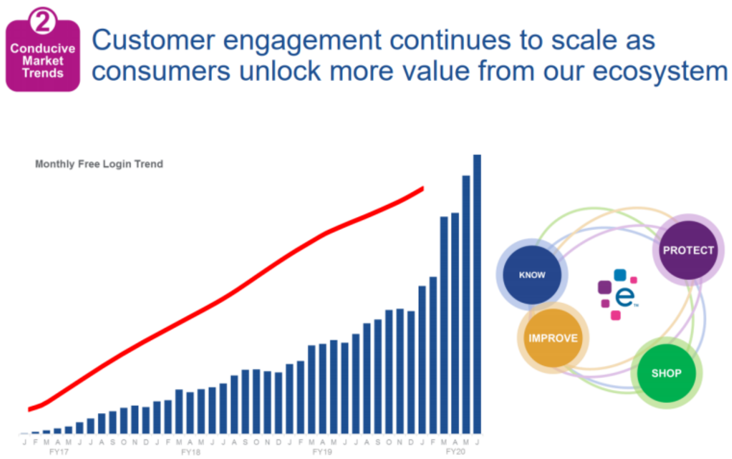
The company expects to grow on emerging markets in the future but might also be at risk when the economy changes.



Experian – EXPN

EXPN is a multinational consumer credit reporting company. The stock price tells us this is another compounder with a good business model. The PE ratio is 40.

Now, data, data collecting, assessing it, distributing personal data to various institutions is all very tricky to do. So, being the first mover or having scale is extremely important. Customers seem to trust the company and the number of logins grows exponentially.



Source: Experian

So, a company that owns data, like FB, is something very hard to value. How sustainable is their achieved growth, what are the competitors doing and are their assessments correct? If they are not doing things right, huge risks might be piling that are hard to see now. We have all seen the Equifax data breach scandal.

At a PE ratio of 40 with revenue growth of 9% it looks like a fairly priced business to me. Perhaps too risky as we don't know how will this look like when the currently loose credit environment changes.

GlaxoSmithKline - GSK

GSK is a British multinational pharmaceutical company. Most investors are not medical practitioners and can't possibly grasp the potential of GSK current and future drug pipeline. But, we can look at finances. Over the past decade, revenues didn't grow at all, margins contracted, the dividend grew slowly but we can say it was stable while debt exploded. Total liabilities went form £32 billion in 2009 to the current £54 billion.

GlaxoSmithKline PLC ADR GSK | ★★★

Financials

Export | Ascending

	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	TTM
Revenue GBP Mil	28,368	28,392	27,387	26,431	26,505	23,006	23,923	27,889	30,186	30,821	31,759
Gross Margin %	74.0	73.3	73.2	70.1	67.6	68.2	63.0	66.7	65.7	66.8	65.6
Operating Income GBP Mil	8,425	3,783	7,220	6,166	5,904	4,306	2,628	6,026	6,061	7,064	7,957
Operating Margin %	29.7	13.3	26.4	23.3	22.3	18.7	11.0	21.6	20.1	22.9	25.1
Net Income GBP Mil	5,531	1,634	5,261	4,565	5,436	2,756	8,422	912	1,532	3,623	4,427
Earnings Per Share GBP	2.16	0.64	2.06	1.80	2.21	1.13	3.45	0.37	0.62	1.45	1.78
Dividends GBP	1.20	1.29	1.35	1.47	1.56	1.60	1.57	1.55	1.61	1.61	1.59
Payout Ratio % *	55.3	201.4	102.6	80.1	96.9	93.0	39.4	—	170.0	215.4	89.4
Shares Mil	2,554	2,564	2,550	2,495	2,460	2,433	2,444	2,455	2,471	2,486	2,494
Book Value Per Share * USD	6.23	5.28	4.54	3.83	4.36	3.23	3.30	0.07	0.70	2.29	1.87
Operating Cash Flow GBP Mil	7,841	6,797	6,250	4,375	7,222	5,176	2,569	6,497	6,918	8,421	8,248
Cap Spending GBP Mil	-1,873	-1,635	-1,328	-1,520	-1,701	-1,751	-1,901	-2,352	-2,202	-1,796	-2,005
Free Cash Flow GBP Mil	5,968	5,162	4,922	2,855	5,521	3,425	668	4,145	4,716	6,625	6,243
Free Cash Flow Per Share * USD	3.78	3.11	2.56	1.85	3.58	2.23	0.90	1.37	2.59	2.72	—
Working Capital GBP Mil	5,452	3,242	1,157	-123	1,550	1,383	3,170	-2,290	-10,662	-5,564	—

* Indicates calendar year-end data information

The dividend is relatively nice at 4.5% but nothing special. All in all it looks like a fairly priced pharma giant at a PE ratio of 18.

My fear is that the skyrocketing healthcare costs in the US for no benefit whatsoever compared to other countries might stop one day which would be a big hit for the whole industry.

International Consolidated Airlines Group - IAG

IAG is practically British Airways alongside other brands like Iberia, Vueling and Aer Lingus. Revenues have been improving over the last years and especially profits.

International Consolidated Airlines Group SA BABWF

Financials

Export | Ascending

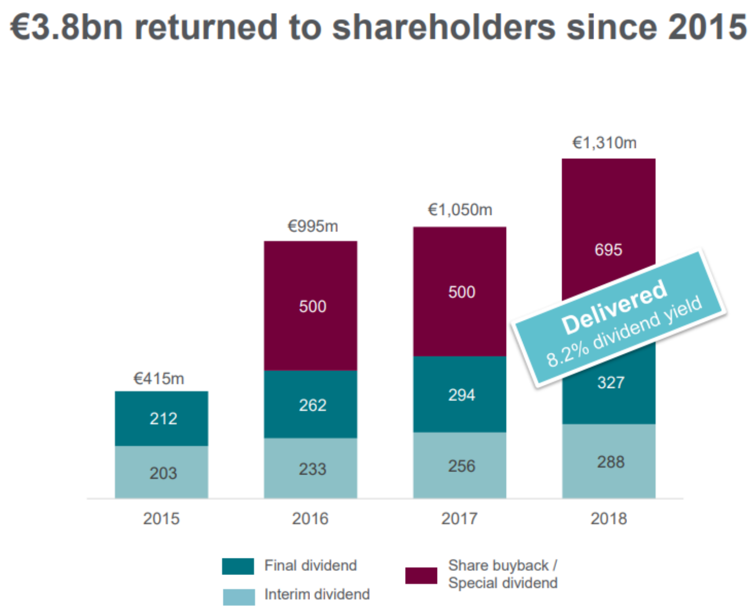
	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	TTM
Revenue EUR Mil	—	7,889	16,103	18,117	18,569	20,170	22,858	22,567	22,972	24,406	25,289
Gross Margin %	—	—	—	22.7	25.9	28.7	33.1	34.7	35.9	36.3	32.6
Operating Income EUR Mil	—	360	616	-251	596	1,179	2,436	2,598	2,741	3,751	3,099
Operating Margin %	—	4.6	3.8	-1.4	3.2	5.8	10.7	11.5	11.9	15.4	12.3
Net Income EUR Mil	—	197	562	-943	122	982	1,495	1,931	2,001	2,885	2,283
Earnings Per Share EUR	—	0.17	0.29	-0.39	0.06	0.46	0.70	0.89	0.92	1.37	1.10
Dividends EUR	—	—	—	—	—	—	0.10	0.21	0.25	0.29	0.31
Payout Ratio % *	—	—	—	—	—	—	—	24.0	24.8	19.4	28.0
Shares Mil	—	1,153	2,005	2,068	1,945	2,162	2,160	2,211	2,179	2,113	2,086
Book Value Per Share * USD	—	—	3.47	3.39	1.43	2.54	2.58	2.23	2.77	4.48	3.70
Operating Cash Flow EUR Mil	—	936	770	339	1,218	1,862	1,968	2,645	3,513	3,236	3,802
Cap Spending EUR Mil	—	-641	-1,071	-1,239	-2,196	-2,622	-2,040	-3,038	-1,490	-2,802	-3,045
Free Cash Flow EUR Mil	—	295	-301	-900	-978	-760	-72	-393	2,023	434	757
Free Cash Flow Per Share * USD	—	—	0.33	-0.58	-0.55	-0.31	-0.14	-0.26	0.62	0.82	—
Working Capital EUR Mil	—	-841	-637	-2,538	-2,299	-2,374	-2,277	449	531	-957	—

* Indicates calendar year-end data information

Source: Morningstar

However, you know how it is with airlines, they make good profits for a while but then all hell breaks loose. That is the reason for the high dividend and low PE ratio, everybody is expecting tough times ahead. A good presentation about how the industry works is here by IAG itself where net profits from 1949 to 2009 had been negative for the industry.

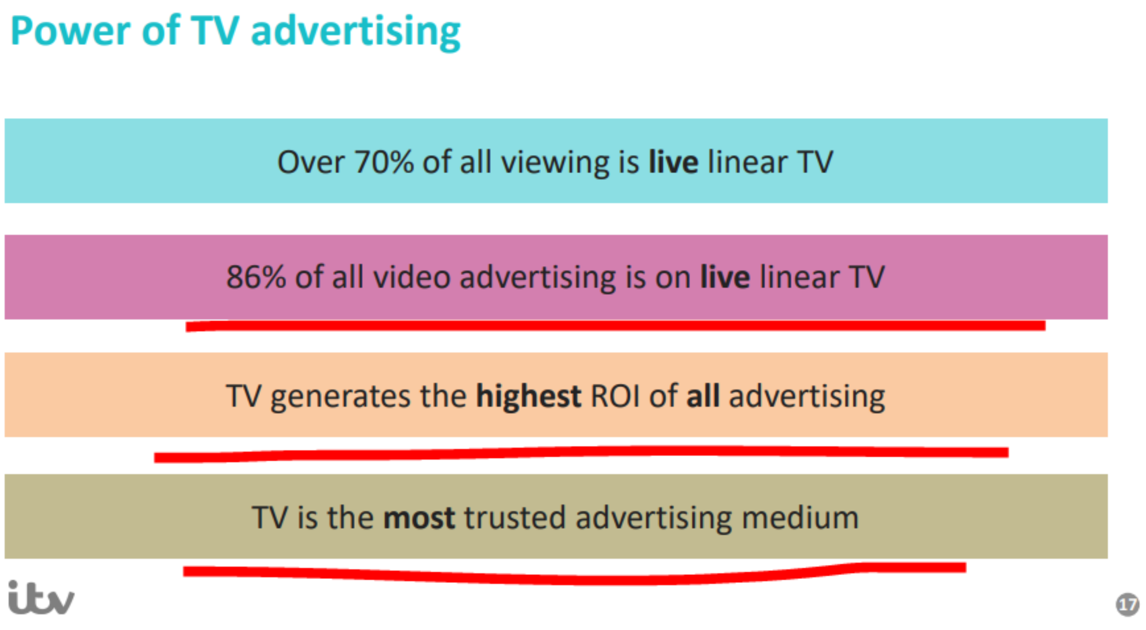
When it comes to airlines, the market should become an oligopoly and British Airways should be a winner in that environment. It has returned EUR 3.8 billion to shareholders over the past years which is a remarkable feat for the industry. However, you never know what is next. Is this time different? We will see, I am not going to bet on it. Too risky.



Source: IAG

ITV plc - ITV

ITV plc is a British media company. It has stable revenues, stable cash flows and high dividends with a yield of 5.76%. However, it is in the business of TV advertising which will still be there, but nothing compared to other, more direct advertising ways that are coming. In case of a slowdown advertising budgets are cut fast and this company would suffer. Long-term, with watch on demand TV etc. I don't see anything spectacular coming out of this. Plus, they still believe TV advertising is the best.



Source: [ITV]

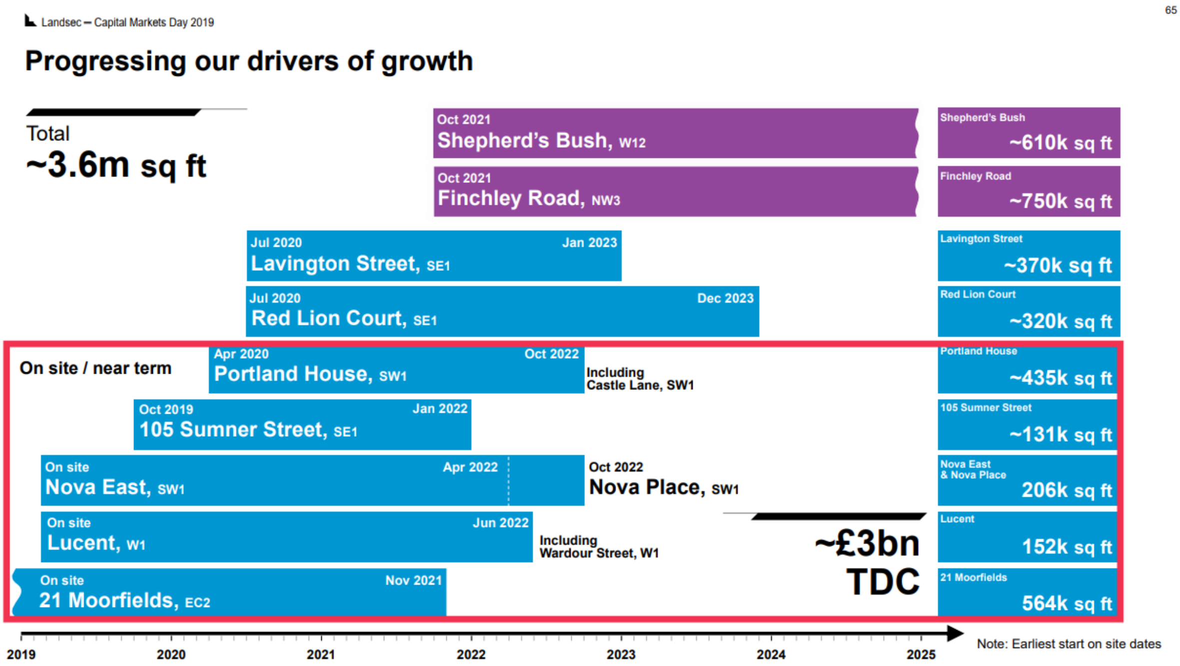
Let me ask you a question, when was the last time you watch a TV commercial? Don't you grab your phone when those come?

So, another good company but nothing special. Remember, the long-term special often comes for free.

Land Securities – LAND

Land Securities Group plc is the largest commercial property development and investment company in the UK. 65% of its assets are in London so if you wish to own London commercial property, look no further.

The are continuing to build, the dividend is close to 5% and what this REIT gives you is exposure to London. Their development yield is between 6.2% and 7% so that is also what you can expect in returns after expenses.



Source: LAND

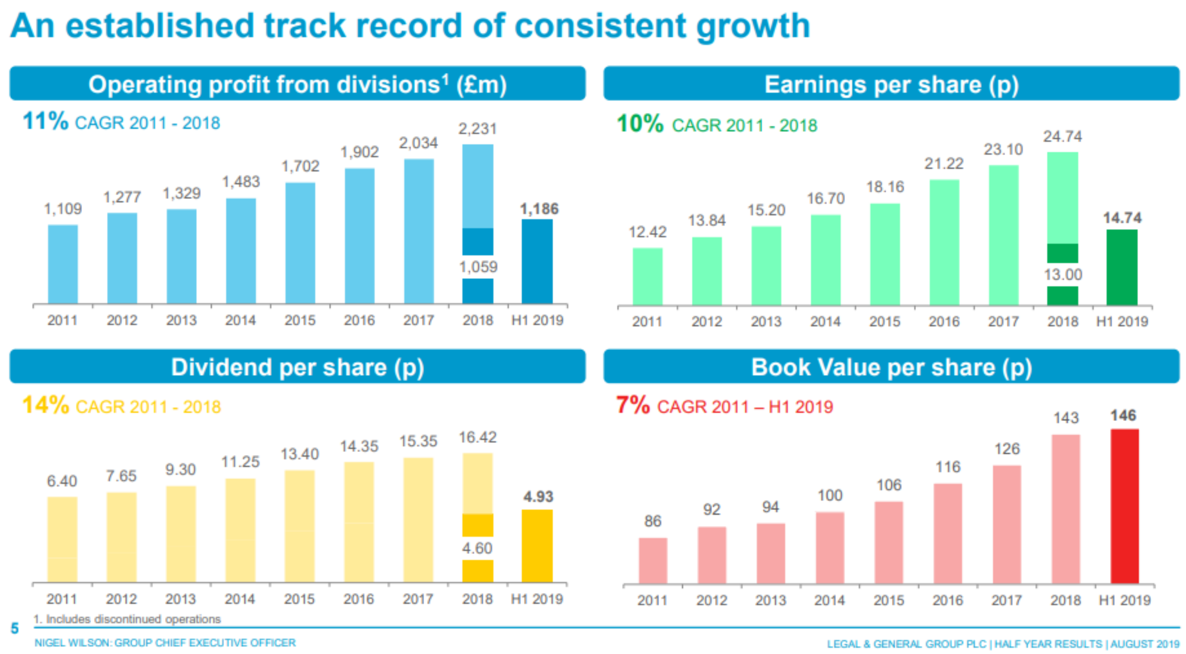
Compare the yield with the average weighted cost of debt of just 2.7% for the company and you get why it works well. Higher interest rates are definitely a risk for the company but you never know when those will materialize. Further, demand for London commercial property is also what matters. Will multinational corporations choose to go elsewhere or stick to London no matter what happens with Brexit. What you don't want to see are dividend cuts when it comes to REITs.

Legal & General – LGEN

Legal & General Group plc, commonly known as Legal & General, is a British multinational financial services company headquartered in London, United Kingdom. Its products and services include investment management, lifetime mortgages, pensions, annuities, life assurance, and general insurance.

The long-term stock chart explains extremely well what kind of business this is. It is a business that does ok while things go well, but when things turn, things do get ugly. Consequently, the dividend is 6%.

Numbers all look beautiful but before investing one has to understand the risk in the pension risk transfer business which is the key component of the company.



Source: LGEN

What are the assumptions on which the projections are made, how are profits booked and what are the risks. Something to dig deep into before investing.

Lloyds Banking Group – LLOY

A recent McKinsey report discussed how half of the global banks are too weak to survive a downturn. However, what I know is that it is all connected in the financial world which means holding banks is risky. Why would you own something that usually goes bust twice in a century.

I have a deeper report on UK related finance stocks so there we will discuss more about insurance and banking.

Man Group – EMG

EMG is an investment management firm. They have $114 billion assets under management and can't possibly make anything special with that. PE ratio is 12.8 and the dividend around 4%.

Marks and Spencer - MKS

MKS is another battered cheap stock being down 65% from its 2015 high, for what it matters it is still down 65% from its 1997 high too.

The story is simple, 90% of revenue is from the UK and those have been flat for a very long time. The competition is fierce and the turnaround will be long and definitely uncertain. The company has been late to the online party and the recent acquisition in Ocado seems more like a desperate move than anything else.

Not much to add here, retail is a difficult business and when you are attacked from all side, from Ike, Aldi, Lidl to Amazon, the likelihood of success is meagre.

Melrose Industries – MRO

Melrose Industries plc is a London-based company that specialises in buying and improving underperforming businesses. Their last big acquisition was British engineering company, aerospace and automotive parts supplier, GKN for $11 billion.

These kind of companies go completely against the investing principles we mentioned at the beginning. They have to constantly invest and divest. They probably make money here and there but at some point they find a dud that drags everything down. It is not possible for them to stay still and not do anything, they paid most out of 3 bidders for GKN. So, for me, this is not a sustainable or healthy business model because so much can simply go wrong. As would Buffett say, we don't do turnarounds.

National Grid - NG

The 5.28% dividend yielder that creates most of its revenues from the US. However, unlikely that the good business in the US will be enough to offset what might happen in UK, especially after the 2021 new regulatory framework and depending on economic and politic situation. The current dividend is also higher than earnings that might lead to issues down the road.

The environment is unionized, has a cap on maximum allowed return on equity possible to achieve etc. It might be a good business, but certainly isn't a great one.

Next -NXT

Next, another retailer, they are using every penny they make to do buybacks.

Cash Flow next

£m	July 2019	July 2018	Average Price
Profit before tax	320	311	
Depreciation / disposals	61	62	
Capital expenditure	(65)	(58)	
Working capital / other	(28)	(75)	
Tax paid	(70)	(69)	
ESOT	(35)	(31)	
Buybacks	(280)	(275)	£55.59
Net cash flow	(97)	(135)	

Source: NEXT

In a risky environment like retail is, doing so much buybacks will backfire at some point in time. So, not sustainable from my point of view, or better to say, too risky.

Reckitt Benckiser - RB

RB is a British multinational consumer goods company. Like for like growth is likely to be negative this year, and I wonder whether this company can go back to its previous glory. Within such markets what I see having a strong impact is the internet. There are now independent producers that can reach a healthy level of operation, there is so much information out there and it is not that you just go and get those Strepsils when having a sore throat.

We know that millennials are much less loyal to brands. So, RB might have enjoyed its best run and the future might be just ok.

Royal Bank of Scotland – RBS

Didn't this go bankrupt in 2009? No further comment.

RSA Insurance Group plc - RSA

To be covered within the insurance analysis.

Smiths Group – SMIN

SMIN is a British multinational diversified engineering business headquartered. It is a lumpy business due to contracts not being linear but it makes interesting things: John Crane mechanical seals, security equipment like scanners and healthcare products. We could say it has its own niches and the question is how can this be scaled and how much does it cost to do it?

Now, this might be a good business, but cash flows are 4% of market cap, so that should be my expected return. I am looking for better. Plus, revenues didn't really go anywhere over the last 10 years, profits neither, which shows that despite making interesting profits, the competition is fierce.

Standard Life Aberdeen - SLA

To be covered within the insurance analysis.

Tate & Lyle – TATE

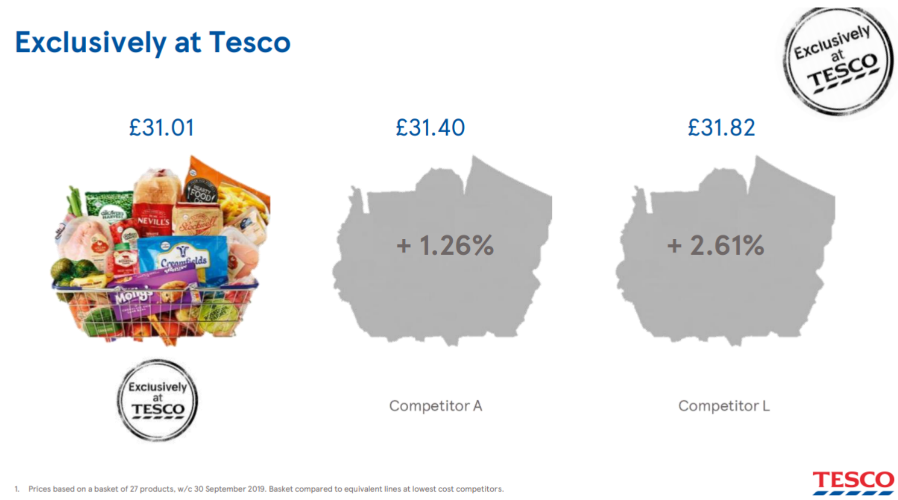
Food ingredients but no growth at all.

They have the same priorities like everybody else in this index:

Source: TATE

Tesco - TSCO

Buffett's retail mistake. If all ends up well, this will continue to be the 2% to 3% dividend yielder. It is simply an extremely competitive environment.



Source: Tesco

Vodafone – VOD

Highly competitive business.

WPP – WPP

WPP is a British multinational advertising and public relations company and the world's largest advertising company.

This is another company that rested on its laurels. The world is changing fast and they didn't change with it. The mere fact that you are now reading this report written by an independent researcher show how the world is changing. You go and get what you want and need, you are less and less under the influence of plain vanilla marketing.

Their US revenue decline was 8.4% in Q1 and 5.4% in Q2 – expect it to continue. Profit after tax 50% down in the first 6 months of this year.

And, wait for the economy to turn south.

3i Group – III

As all venture capitalists, while things go well they do well, but when things turn, the chicken come to roost. Same old story happening over and over again.