03:56 07 Dec 2016

Beaufort Securities Breakfast Alert: Ashtead Group, Easyjet, MySQUAR Limited, Wolseley, Mineral & Financial Investment Limited

Today's edition features:

Mineral & Financial Investment Limited (LON:MAFL)

MySQUAR Limited (LON:MYSQ)

Ashtead Group (LON:AHT)

easyJet (LON:EZJ)

Wolseley (LON:WOS)

"The US bull continues to drive international equity sentiment. And the sell-off in global bond markets probably still has further to go, with investors now awaiting details of Trump's fiscal expansion which, assuming it is just half as rigorous as suggested during his presidential campaign, will power US growth potentially enough to take the 10-year yield back to 3% or more by this time next year - a level last seen back at the start of 2014. The fact that UK Prime Minister, Theresa May, was seemingly forced yesterday to accept Labour's demands that she sets out her ultra-sensitive Brexit plans to Parliament, while the resignation of Italian leader, Matteo Renzi, a couple of days ago appears to signal the wave of populism has now landed in the heart of the EU with New Year elections in France and Germany potentially threatening the very foundation of the Euro, quite staggeringly appears to be passing by unnoticed. Indeed, the FTSEMib on Tuesday managed to post its best levels since the Brexit vote in June, with bad-debt laden Italian banks put in the strongest performances. Financials also powered the Dow Jones to yet another record high last night, with strong technology stocks boosting the NASDAQ sufficiently for it to record the best performance amongst the principal US indices. Asia followed suit, with the Nikkei performing strongly as the Yen weakened against the US$, although the ASX enjoyed the biggest upward move amongst the regional indices despite official data confirming the Australian economy contracted during the third quarter, its first fall in five years, apparently due to a reluctance by businesses to invest. Today, the UK is due to provide Industrial Production figures along with release of the Halifax House Price Index and NIESR monthly GDP estimates, while consumer credit data is due from the US. UK corporates expected to detail earnings or trading updates include Autins Group (AUTG.L), Carillion (CLLN.L), Kromek Group (KMK.L), Numis (NUM.L) and Stagecoach (SGC.L). Meanwhile, traders will be keeping an eye out for further media reports regarding tomorrow's policy-setting ECB meeting, which is now expected to extend its bond-purchase programme but just might signal a time by which tapering could get underway. London is expected to take its lead from the US in today's opening trade, with the FTSE-100 seen rising some 40 points. "

- Barry Gibb, Research Analyst

Markets

Europe

The FTSE-100 finished yesterday's session 0.49% higher at 6,779.84, whilst the FTSE AIM All-Share index closed 0.55% down at 810.83. In continental Europe, the CAC-40 finished 1.26% higher at 4,631.94 whilst the DAX was 0.85% better-off at 10,775.32.

Wall Street

In New York last night, the Dow Jones added 0.18% to 19,251.78, the S&P-500 firmed 0.34% to 2,212.23 and the Nasdaq was up 0.45% to 5,333.0.

Asia

In Asian markets this morning, the Nikkei 225 had risen 0.57% to 18,464.70, while the Hang Seng firmed 0.41% to 22,768.85.

Oil

In early trade today, WTI crude was down 0.69% to $50.58/bbl and Brent was down 0.57% to $53.62/bbl.

Headlines

Housing crisis 'creates in-work poverty'

Poverty among people who are working has risen despite a recovery in the UK economy, a study has suggested. High rental housing costs mean an estimated 3.8 million workers - one in eight - are in poverty, according to the Joseph Rowntree Foundation (JRF). It said in-work poverty was up by 1.1 million since 2010-11, and 55% of those in poverty were in working families. People with less than 60% of median income are classified as poor. Overall poverty was down, the government said. Its figures suggested poverty numbers had been falling compared to six years ago. "Since 2010, the number of people living in poverty has fallen by 300,000 but we know there is more to do. We are increasing the National Living Wage and taking millions of people out of income tax, to make sure it always pays to be in work," a government spokesman said.

Company news

Mineral & Financial Investment Limited (LON:MAFL, 5.16p) - Update
Mineral & Financial Investment, the metals and mining focused investment company, announced today results from re-testing of historical holes on its 49% owned Lagoa Salgada in Portugal. The project is owned and operated by TH Crestgate, a private investment company in which MAFL holds a 49% interest. Crestgate has completed a geological re-interpretation of four historical drill holes at Lagoa Salgada. The re-work programme comprised re-logging, re-assaying, analysis and modelling of the previously unsampled intervals from the four historical drill holes. These new results have yielded high-grade copper content with the best intercept from LS-20 that returned 93m grading 0.94% Cu (2.85% Cu eq.) including 21.3m grading 2.84% Cu (6.35% Cu eq.). The 13,400ha Lagoa Salgada project has a preliminary resource (see RNS 27 August 2015) for the LS-1 Zone which is located c 1km NW of the current re-interpretation area referred to the Central Sector where the four historical holes were drilled by a previous operator.

Our view: The re-interpretation of historical drill holes has returned some decent high-grade copper intercepts. These higher-grade zones are associated with stock-works in altered zones within sub-volcanic intrusions. We are encouraged with the high-grade copper results and the re-interpretation of the style and type of mineralisation. We look forward to additional results as Crestgate tests its hypothesis that the Central Sector zone may host a late intrusive of alteration event that overprints the normal volcano-sedimentary system.

MySQUAR Limited (LON:MYSQ, 3.5p) - Speculative Buy
MySQUAR, the Myanmar-language social media, entertainment and payments platform whose principal activity is to design, develop and commercialise Myanmar-focused internet-based mobile applications, yesterday announced that it has entered into a VoIP technology licensing agreement with M800 Limited, the Hong Kong-based communication service and technology provider. Under the agreement, M800 will license its VoIP technology to MySQUAR which will be integrated into MySQUAR's VoIP services business. Under the terms of the agreement MySQUAR will pay up front license fees followed by a monthly license fee per active user. MySQUAR plans to release VoIP services, which will offer both on-net calls (app to app) and off-net calls (app to mobile phones and landlines), by the end of December

2016. The services will target the Myanmar market and also South East Asia countries, such as Thailand, Singapore, and Malaysia, to where many people from Myanmar have migrated. To support the VoIP business as well as other MySQUAR services, such as the gaming business, in engaging with Myanmar people living overseas, MySQUAR has also entered into an agreement for payment services with Fortumo OÜ, the global payment service provider of direct carrier billing. Fortumo's services will allow users of MySQUAR's apps, based anywhere in the 96 markets where Fortumo has operations, to make payment via carrier billing. The agreement with Fortumo will operate on a revenue share basis.

Our view: VoIP is the next obvious step for MySQUAR to take, as it secures its position as Myanmar's trusted, branded and only local language offering of social media, communications and entertainment in what is effectively the world's last major telecom frontier. Nearing release, management plans to offer bundle-pricing for the on-net and off-net calls, which should offer Myanmar people a very economic means for their daily communication, particularly for international access. The partnership with Fortumo will help MySQUAR's services expand beyond just Myanmar, using its carrier billing solutions, games, VoIP services, etc. to tap into the extensive Myanmar diaspora living overseas. Elsewhere, Fastsell, the mobile marketplace app, was soft-launched yesterday, which is being followed by a direct marketing campaign aimed at retailers who want to list their products for sale. This marketing tool is already established in Vietnam and is now targeting Myanmar through a new application which allows sellers to list their products while buyers can use the application to identify potential purchases, negotiate prices and identify geographic locations. Monetisation will come from advertising, subscription and handling fees under a perpetual agreement, for which MySQUAR's share of revenues with the developer will be 60%. This, along with continuing dramatic expansion of its user account numbers - which considering it will now be a collective number comprising all apps, games, Fastsell, VoiP and, of course, MyChat, is likely to significantly exceed the 6m suggested back in October - and further portfolio expansion in coming months, all means MySQUAR is positioned to more than deliver on its promises. Based on recent progress, MySQUAR has the very real potential to be achieving monthly break-even or better before the end of the current financial year (ended-June 2017). This is something that is unlikely to have been missed by its numerous and very cash-rich global peer group, who remain determined to continue ensnaring players in virgin territories that have successfully participated in an online user 'landgrab'. In this respect, MySQUAR now appears quite dramatically undervalued; Beaufort retains a price target of 21.0p/share and repeats its Speculative Buy recommendation.

Ashtead Group (LON:AHT, 1,568.79p) - Buy
Ashtead Group, an international equipment rental company with national networks in the US and the UK, yesterday announced its half-year results for the 6 months ended 31 October 2016 (H1 FY2017). During the period, on a statutory and constant currency basis, revenue advanced by +8% to £1,551.7m, pre-tax profit rose +9% to £413.3m including £13m of amortisation leading earnings per share grew by +9% to 54.3p, against comparable period (H1 FY2016). On an underlying constant currency basis, both rental revenue and EBITDA rose +13% to £1,444.6m and £757.4m, respectively, pre-tax profit increased by +9% to £425.9m and earnings per share also grew by +9% to 56p. Net debt at the period-end stood at £2,694.5m (end-H1 FY2016: £1,981.6m) while net debt to EBITDA ratio declined to 1.8x from 1.9x. Return on investment in the 12 months to 31 October 2016 was 18%, down -1%. On the operational front, the Group invested £683m (£631m net of disposal proceeds) by way of capital expenditure, and invested £142m, including acquired debt, (H1 FY2016: £25m) on 11 bolt-on acquisitions during the period. Ashtead spent £48m to date under the share buyback programme (of up to £200m for FY2017) and declared an interim dividend of 4.75p per share, up +19%, to be paid on 8 February 2017.

Our view: Ashtead delivered a strong performance in H1 FY2017, with both Sunbelt (US and Canada) and A-Plant (UK) divisions performing at the top end of expectations. The Group's reported revenues expanded by +28% due to weaker Sterling following BREXIT, resulting in reported pre-tax profit jumping by +25%. The underlying performance was also in good shape, supported by both organic and bolt-on acquisitions, with both divisions delivering encouraging rental-only revenue growth, driven by increased hire fleet. A strong balance sheet, together with improved Group EBITDA margin of +2% (to 49%) has paved the way for share buyback and +19% increase in the interim dividend. Looking ahead, the Group increased its full year capital expenditure guidance to £1.0-1.2bn at current exchange rates. With strong performance from all divisions, along with favourable foreign exchange rates, the Group said it expect full year results to be ahead of expectations. Ashtead's strategy remains unchanged, with growth being driven by strong same-store growth, greenfield openings, and bolt-on acquisitions. We are encouraged by the Group's progress and its Board's medium-term confidence. Beaufort reiterates its Buy rating on the Shares.

easyJet (LON:EZJ, 970.94p) - Buy
easyJet, a low-cost European short-haul airline company, yesterday released its passenger statistics for November 2016. During the month, passenger traffic increased by +2.9% y-o-y to 4,947,060, while load factor fell -0.6% to 89.7%. On a rolling basis for the past 12 months, passenger traffic rose +5.9% to 73.7 million customers and the load factor declined by -0.5% to 91.3%. Passenger traffic represents the number of earned seats flown while load factor represents the number of passengers as a proportion of the number of seats available for passengers.

Our view: easyJet delivered good y-o-y passenger growth in November but recorded another month with a falling load factor. Although the statistics were not great, we see the load factor recovering compared to the month before (October 2016: -3.1%). In November, easyJet announced resilient preliminary results for the FY2016 in which it delivered -0.4% declined in revenue, -27.9% fall in pre-tax profit and -21.9% drop in basic earnings per share, in line with guidance during a period that was a significantly disruptive for the whole industry. The Group registering record passenger numbers and load factor for the year, while delivering a strong balance sheet at the period-end, despite increasing its dividend pay-out ratio to 50%. While keeping one careful eye on the oil price and economic/political uncertainties, Beaufort retains its Buy rating on the shares based on a FY2017E earnings multiple of 12.2x and 4.1% yield.

Wolseley (LON:WOS, 4,715.68p) - Hold
The world's number one distributor of heating and plumbing products and a leading supplier of builders' products to the professional market, yesterday provided shareholders with an Interim management statement for the 3 months to end-October 2016. Highlights for the period included revenues 5.2% ahead of last year at constant exchange rates, including like-for-like growth of 1.8% gross margin of 28.3%, being 0.3% ahead of last year. Trading profit of £303 million, or 1.4% ahead of last year at constant exchange rates, while movements in foreign exchange rates increased revenue by £599 million and trading profit by £48 million; commodity price deflation reduced revenue by 1.3%. Net debt at 31 October 2016 of £1,169 million, 1.0x EBITDA, having completed four acquisitions in the quarter, and one since the quarter end, for total consideration of £216 million.

Our view: US like-for-like revenue growth was 4.2% with commercial and residential markets continuing to grow well and industrial markets steadying. Good volume growth was partly offset by the ongoing impact of commodity price deflation which reduced the US revenue growth rate by 2.4%. Other international markets were more challenging, with a weak UK heating market and deteriorating conditions in Nordic construction markets. While revenue growth trends have improved slightly, management's focus remains on managing costs and productivity very carefully while continuing to drive customer service and strong cash conversion. Like-for-like revenue growth to date in the current quarter has been in line with the first quarter results, with mixed markets across its regions coming with heightened uncertainty regarding economic outlook. The Board, however, continues to be confident that Wolseley will make further progress in the year ahead and expect trading profit to be in line with analyst expectations at current exchange rates. While it may be realistic to anticipate a minor New Year boost to UK RMI spend along with signs of life in Nordic activity as seasonal conditions improve, Wolseley is expected to do well under the Trump administration. While enjoying a continuing boost from US$ translation, reduced regulatory burden plus higher rates of infrastructure and non-residential spending, increased public optimism means that the effects of a raised 30-year mortgage are unlikely to be significantly noticed in a buoyant homebuilding market for some time. This provides scope for earnings per share to be lifted by a couple of percent for both 2017E and 2018E to 295p and 332p post-exceptionals respectively. And there's the problem! Wolseley shares continue to look fully valued on 15.9x and 14.1x forward P/E multiples, particularly when you consider many (smaller) sector peers offer much more income than the 2.6% and 2.9% dividend yields anticipated. Beaufort retains Wolseley on a Hold recommendation noting its outperformance relative to the FTSE100 since October.

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