

# Electrocomponents PLC

ECM: LSE. Sector: Industrials/Support Services

Analyst: James Boyle

Email: [14528901@students.lincoln.ac.uk](mailto:14528901@students.lincoln.ac.uk)

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## Business model

Electrocomponents plc is a British based firm within the FTSE 250 specialising in the distribution of industrial and electronic products. Founded in 1937 with revenues of £1,705.3 million, 2018, and a total of 5,868 employees. Through its operations ECM serves over 1 million customers in more than 80 countries. These operations contain over half a million unique products, including electronic components, electric, automation and control, test and measurement equipment and engineering tools/consumables. Sourced from 2,500 suppliers. Trading under RS components worldwide operations, Allied Electronics operating in north America and IESA.

## Investment rationale

Our BUY recommendation is derived from the technical analysis of financial statements and financial indicators. ECM's largest benefit over its competitors is its much larger return on investment and return on equity when compared to its industry and sector averages. Although its price to earnings is above its competitors its price to sales is well under the competitors. This is due to ECM's larger volume of sales.

Dividends has been growing year on year since 2017 showing the companies belief in its ability to meet increasing dividends payments thus reflecting their belief of continued growth in earnings. This can be backed up by ECM's earnings per share of 0.284. The average growth rate of such is 19.67% with this year's being of 28.94%. We expect an EPS of 0.3921 in 2020 an increase of 27.5%.

It is our belief that with ECM's more effective use of capital and strong growth in revenues and net earnings this make themselves a strong market participant. As the company continues to expand itself it will inevitably lose some of its efficiency however we believe although their growth may slow it will lead to an increase in share price alongside the expansion.

## Investment risks

With ECM being based within the LSE but having its operations based globally with predominance in north America. This presents numerous risks regarding foreign exchange. Firstly, any transactions made overseas obviously contain transaction risk from £ to the foreign currency and as such adverse currency movements could drastically effect operations and thus profits. Secondly regarding exchange rates when it comes to the reporting date all foreign currencies must be exchanged to sterling and thus depending on the current rates this may adversely affect the amounts which the business has earned. Both risks may be amplified by Brexit depending upon the trade deal and how the forex markets react.

Furthermore, any news that may affect the strength of other currencies that the company operates in could also affect the amount transferable to sterling. For instance, if the US China talks becomes favourable, we may see and appreciation in the strength of the dollar and as such my indirectly effect the amount ECM can transfer to sterling from overseas operations. Which may

## RECOMMENDATION

**BUY**

Current Price

**559.20 GBp**

Our Valuation Range

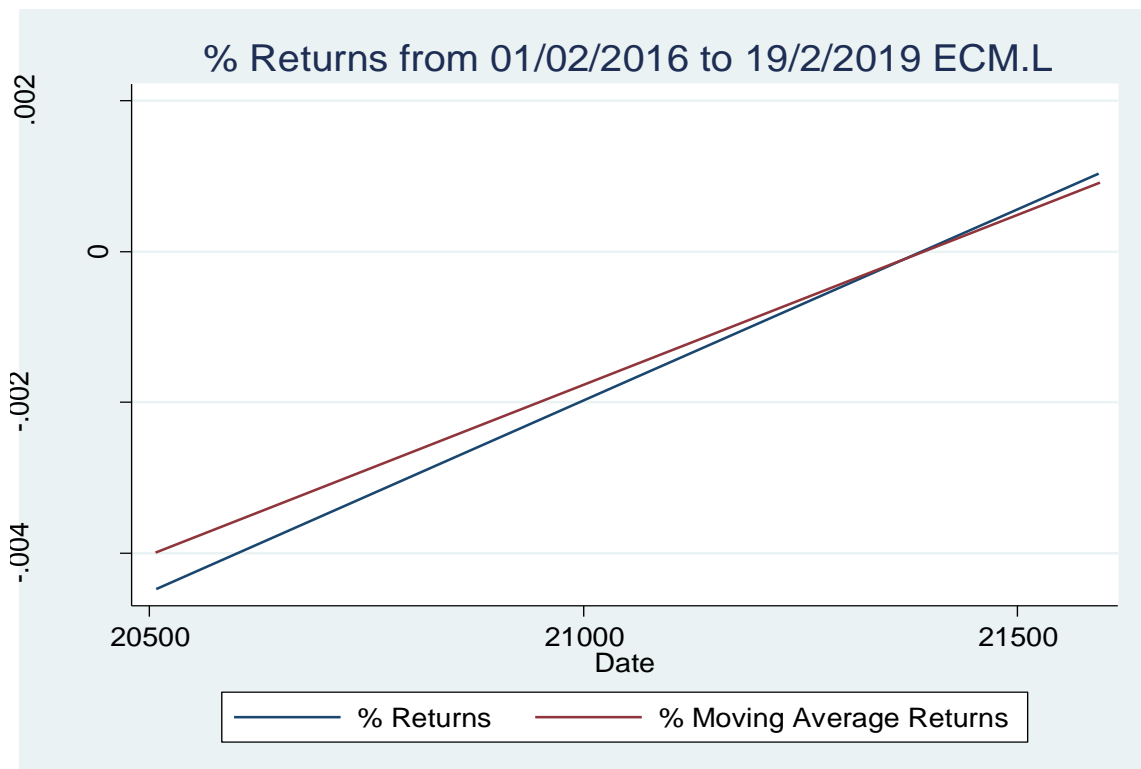
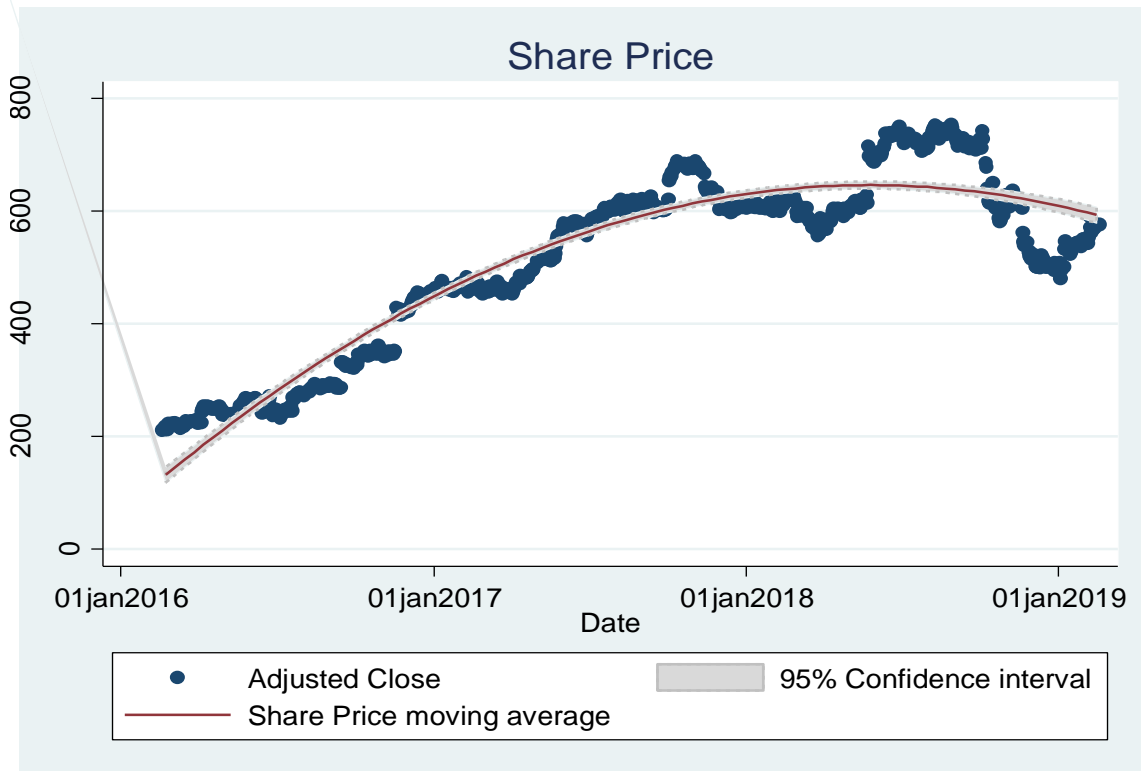
**550.00 – 945.00**

Ashtead Group plc is an equipment rental company. The Company rents a range of construction and industrial equipment across a range of applications to a diverse customer base. With 550 stores in the UK, USA & Canada

## MARKET DATA

Revenue in GBP (TTM)	
Net income in GBP	
Incorporated in	1937
Employees	5,868
52-week range	478.40-779.20
Average volume	1.02m
Shares outstanding	443.82m
Free float	440.85m
P/E (TTM)	18.62
Market cap	2.55 bn
EPS (TTM)	0.3087p
Cash Flow by share	0.04055
Price/Cash flow per share	25.05
Book value per share	1.088
Tangible book value per share	0.5610
Net profit margin (TTM)	6.09
Operating margin	8.75
Return on Capital Employed	24.1%
Annual div (ADY)	13.30
Annual div yield (ADY)	3.98
Return on assets	8.07
Return on equity	24.73
Return on investment	13.79

impede its ability to meet its short-term liabilities and limit growth.



I/S

<b>Fiscal data as of Mar 31 2018</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>REVENUE AND GROSS PROFIT</b>					
Total revenue	1,705	1,512	1,291	1,266	1,273
<b>OPERATING EXPENSES</b>					
Cost of revenue total	956	855	730	702	689
Selling, general and admin. expenses, total	577	524	521	464	478
Depreciation/amortization	--	--	--	--	--
Unusual expense(income)	--	--	--	--	--
Other operating expenses, total	--	--	--	--	--
<b>Total operating expense</b>	<b>1,533</b>	<b>1,379</b>	<b>1,251</b>	<b>1,165</b>	<b>1,167</b>
<b>Operating income</b>	<b>173</b>	<b>132</b>	<b>40</b>	<b>101</b>	<b>106</b>
Other, net	--	--	--	--	--
<b>INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS</b>					
<b>Net income before taxes</b>	<b>169</b>	<b>127</b>	<b>35</b>	<b>96</b>	<b>101</b>
Provision for income taxes	47	35	13	26	30
<b>Net income after taxes</b>	<b>122</b>	<b>92</b>	<b>22</b>	<b>70</b>	<b>72</b>
Minority interest	--	--	--	--	--
<b>Net income before extra. Items</b>	<b>122</b>	<b>92</b>	<b>22</b>	<b>70</b>	<b>72</b>
Total extraordinary items	28	--	--	--	--
<b>Net income</b>	<b>150</b>	<b>92</b>	<b>22</b>	<b>70</b>	<b>72</b>
<b>Inc.avail. to common excl. extra. Items</b>	<b>122</b>	<b>92</b>	<b>22</b>	<b>70</b>	<b>72</b>
<b>Inc.avail. to common incl. extra. Items</b>	<b>150</b>	<b>92</b>	<b>22</b>	<b>70</b>	<b>72</b>
<b>EPS RECONCILIATION</b>					
Basic/primary weighted average shares	441	440	439	439	439
Basic/primary eps excl. extra items	0.28	0.21	0.05	0.16	0.16
Basic/primary eps incl. extra items	0.34	0.21	0.05	0.16	0.16
Dilution adjustment	--	--	0	--	--
Diluted weighted average shares	445	444	440	441	442
Diluted eps excl. extra items	0.27	0.21	0.05	0.16	0.16
Diluted eps incl. extra items	0.34	0.21	0.05	0.16	0.16
<b>COMMON STOCK DIVIDENDS</b>					
DPS - common stock primary issue	0.13	0.12	0.12	0.12	0.12
Gross dividend - common stock	59	54	52	52	51

<b>PRO FORMA INCOME</b>					
Pro forma net income	--	--	--	--	--
Interest expense, supplemental	12	9.50	7.50	7.10	7.50
<b>SUPPLEMENTAL INCOME</b>					
Depreciation, supplemental	9.90	11	11	11	11
Total special items	6.20	1.80	58	(16)	1.20
<b>NORMALISED INCOME</b>					
<b>Normalized income before taxes</b>	<b>175</b>	<b>129</b>	<b>92</b>	<b>80</b>	<b>102</b>
Effect of special items on income taxes	1.72	(0.4)	(8.4)	3.70	0
Income tax excluding impact of special items	49	35	4.60	30	30
<b>Normalized income after tax</b>	<b>126</b>	<b>94</b>	<b>88</b>	<b>51</b>	<b>73</b>
<b>Normalized income avail. to common</b>	<b>126</b>	<b>94</b>	<b>88</b>	<b>51</b>	<b>73</b>
Basic normalized EPS	0.29	0.21	0.20	0.12	0.17
Diluted normalized EPS	0.28	0.21	0.20	0.11	0.16

## C/F

<b>Fiscal data as of Mar 31 2018</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>OPERATIONS</b>					
Net income	169	127	35	96	101
Depreciation/depletion	26	29	30	31	28
Non-Cash items	13	0.20	32	7.30	7.30
Cash taxes paid, supplemental	38	28	20	22	25
Cash interest paid, supplemental	12	9.30	7.50	7.10	7.50
Changes in working capital	(81)	(29)	(21)	(47)	(43)
<b>Total cash from operations</b>	<b>127</b>	<b>128</b>	<b>76</b>	<b>87</b>	<b>93</b>
<b>INVESTING</b>					
<b>Capital expenditures</b>	<b>(24)</b>	<b>(19)</b>	<b>(29)</b>	<b>(38)</b>	<b>(36)</b>
Other investing and cash flow items, total	0	3.90	0	0.10	0.10
<b>Total cash from investing</b>	<b>(24)</b>	<b>(15)</b>	<b>(29)</b>	<b>(38)</b>	<b>(36)</b>
<b>FINANCING</b>					
Financing cash flow items	--	--	--	--	--
<b>Total cash dividends paid</b>	<b>(55)</b>	<b>(52)</b>	<b>(52)</b>	<b>(52)</b>	<b>(51)</b>
Issuance (retirement) of stock, net	(1.8)	(0.2)	(0.6)	(0.2)	0.80
Issuance (retirement) of debt, net	(27)	(48)	9.10	25	(23)
<b>Total cash from financing</b>	<b>(85)</b>	<b>(100)</b>	<b>(43)</b>	<b>(27)</b>	<b>(74)</b>
<b>NET CHANGE IN CASH</b>					
Foreign exchange effects	(4.2)	0	(0.7)	(1.7)	2.50
<b>Net change in cash</b>	<b>14</b>	<b>13</b>	<b>2.80</b>	<b>21</b>	<b>(14)</b>
Net cash-begin balance/reserved for future use	21	8.30	5.50	(15)	(14)
Net cash-end balance/reserved for future use	35	21	8.30	5.50	(15)
<b>SUPPLEMENTAL INCOME</b>					
Depreciation, supplemental	26	29	30	31	28
Cash interest paid, supplemental	12	9.30	7.50	7.10	7.50
Cash taxes paid, supplemental	38	28	20	22	25

<b>Fiscal data as of Mar 31 2018</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>					
Cash And Short Term Investments	123	94	352	317	0.70
Total Receivables, Net	277	258	214	221	211
Total Inventory	331	304	269	285	259
Prepaid expenses	18	20	18	--	11
Other current assets, total	0.80	0.80	0.40	--	1.90
<b>Total current assets</b>	<b>750</b>	<b>676</b>	<b>854</b>	<b>823</b>	<b>483</b>
Property, plant & equipment, net	97	97	96	101	105
Goodwill, net	187	208	182	177	157
Intangibles, net	47	52	59	72	63
Long term investments	1.30	3.20	12	14	4.10
Note receivable - long term	4.60	4.70	2.10	3.70	5.30
Other long term assets	--	--	--	--	--
<b>Total assets</b>	<b>1,107</b>	<b>1,063</b>	<b>1,219</b>	<b>1,202</b>	<b>825</b>
<b>LIABILITIES</b>					
Accounts payable	174	162	121	204	106
Accrued expenses	102	95	75	--	78
Notes payable/short-term debt	88	55	343	311	0
Current portion long-term debt/capital leases	0	68	0	44	16
Other current liabilities, total	27	10	17	8.60	18
<b>Total current liabilities</b>	<b>391</b>	<b>390</b>	<b>557</b>	<b>568</b>	<b>217</b>
Total long term debt	101	85	185	128	131
Total debt	188	209	528	483	147
<b>Deferred income tax</b>	<b>47</b>	<b>81</b>	<b>71</b>	<b>69</b>	<b>59</b>
Minority interest	--	--	--	--	--
Other liabilities, total	86	118	51	68	53
<b>Total liabilities</b>	<b>625</b>	<b>674</b>	<b>864</b>	<b>833</b>	<b>461</b>
<b>SHAREHOLDERS EQUITY</b>					
Common stock	44	44	44	44	44
Additional paid-in capital	47	45	44	42	42
Retained earnings (accumulated deficit)	355	230	234	259	268
Treasury stock - common	(4.2)	--	--	--	(0.7)
Unrealized gain (loss)	--	--	--	--	--
Other equity, total	41	70	34	23	11
<b>Total equity</b>	<b>483</b>	<b>389</b>	<b>356</b>	<b>368</b>	<b>364</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>1,107</b>	<b>1,063</b>	<b>1,219</b>	<b>1,202</b>	<b>825</b>
Total common shares outstanding	442	441	441	440	440
Treasury shares - common primary issue	0	0	0	0	0

## LINCOLN STUDENT MANAGED INVESTMENT FUND (LSMIF)

Founded in 2018, the Lincoln Student Managed Investment Fund (LSMIF) is exactly what it says on the tin, a fund which will analyse, determine upon, and purchase shares to create a portfolio. The only difference is we are students. No simulations, just our knowledge and ability vs the real market. The best test of our teachings and learnings.

The fund is set up with a structure similar to any other professionally run fund management company with students running every aspect of the fund, from CEO to analyst. It is designed to give any student involved the best experience of the financial world possible before getting a job.

The fund will be handed down to new students each year as those partake in this fund finish their studying. The fund aims to grow in the future, with more positions available to give the most number of students the chance to partake.

The ultimate goal of the fund is to raise the profile of each student involved to allow for them to get the best experience possible. We, however, set the following objectives to make the fund grow on sustainable basis:

- To generate long-term returns from investments using our stylized investment strategies.
- To raise funds through crowdfunding and donors to help increase the capital base.
- To increase the number of students involved in the fund with expanded capital base.
- To link the fund's activities with the related programmes and modules' assessments
- To get more outside sponsors who want to work directly with the fund as well, to further simulate the professional environment.

### Contact details

Chief Executive Officer: Mr. James Stenson, BSc Banking and Finance, University of Lincoln. Email: [18688103@students.lincoln.ac.uk](mailto:18688103@students.lincoln.ac.uk).

Academic Advisor: Dr. Hao Quach. Principal Lecturer/Programme Leader for Banking and Finance programmes. Email: [hquach@lincoln.ac.uk](mailto:hquach@lincoln.ac.uk). Tel: +441522835546

General Enquiries: Email: [LSMIF@lincoln.ac.uk](mailto:LSMIF@lincoln.ac.uk)

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