

Hotel Chocolat Group PLC

HOTC.L. Sector: Consumer Services/Food Products

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Investment update 24/3/2019

- Since purchase we have seen a gain on investment of around 14.19%.
- We propose holding this share over the Easter period selling at around 400p as historically we have seen a price increase around this time of year and with low dividend yields there is little use in holding out to receive dividends on this stock.
- As of the last production of the report financials haven't changed due to the reporting date used by the firm meaning that further analysis with regards to ratios is limited.
- Below is the 6-month chart for HTCL.L showing that since investment we have had a consistent gain that we hope will continue of the Easter period with it being increased by the current coverage the firm is getting from the program currently being aired on channel 5.

Business model

Hotel Chocolat Group plc is a chocolate company. The Company is engaged in manufacturing and retailing of chocolate in the United Kingdom and overseas. The Company operates in three areas: the United Kingdom, Europe and Rest of World. The Company offers chocolates under the brand, Hotel Chocolat. The Company sells its chocolate direct to customers through subscription, online and its approximately 83 stores. The Company's product ranges include self purchase, gift and occasion, rare and vintage, and other. Its product types include boxed chocolates, luxury boxed chocolates slabs and batons, enrobed fruit and nuts, chocolate hampers, ribbon bags, wine and spirits, hot chocolate and cocoa cuisine. Its chocolate types include dark, milk, white, bean to bar, boozy, caramel, cocoa gin, coffee, fruity, marzipan, mint, nut, patisserie, praline and truffles. The Company owns a cocoa plantation in Saint Lucia called the Rabot Estate.

RECOMMENDATION

BUY

Current Price

310.00

Our Valuation Range

410.00 – 280.00

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MARKET DATA

Revenue in \$	116.33m	116.33m
Net income in GBP	53.50m	53.50m
Incorporated in	1987	1987
Employees	1248	1248
52-week range	250.00 - 410	251.56 - 415
Average volume	87,820	82,810
Shares outstanding	112.84m	112.84m
Free float	37.36m	37.49m
P/E (TTM)	39.92	39.92
Market cap	380.69m GBP	349.8m GBP
EPS (TTM)	0.08 GBP	8.8 GBP
Cash Flow per share	0.1417	0.1305
Price/Cashflow per share	23.99	23.12
Book value per share	0.4429	0.351
Tangible book value per share	0.4187	0.351
Net profit margin (TTM)	8.51%	8.58%
Operating margin	11.27%	11.37%
Return on Capital Employed	29.48	29.49
Annual div (ADY)	1.7 GBX	1.7GBX
Annual div yield	16.79%	0.54%
Return on assets	21.10	16.79%
Return on equity	23.84%	28.20%
Return on investment	21.36%	24.80%

Investment rationale

Our BUY recommendation is derived from a valuation analysis which employs two valuation methods and assumptions as follows:

- Ratio analysis which shows a consistent 2-year profit margin of over 10% while gearing has vastly decreased resulting in a potentially lower level of risk. Meanwhile a consistent increase in return on assets / return on equity demonstrates that the firm is undertaking investments which are providing stable long-term returns when compared to the market norms.
- When looking at the financial statements for the firm there is also a clear increase in both investment and income to the firm which further demonstrates its growth and potential for return on investment.

Our valuation range is 280 – 410 and so we believe it would be good to buy shares of this company. The recommended entry prices are not higher than 344 with a possibility of holding them for 6 months.

Investment risks

- There is currently an inherent market risk due to recent political events which may reduce household income and therefore reduce spending on luxury food goods which is the main source of income for HTCL.L
- There are also supply chain risks being created by Brexit as coco is sourced from farms overseas and therefore may be held at borders if the appropriate deals are not made.
- This firm is also competing in an already saturated market with companies such as Thornton's, Cadbury and nestle which already hold substantial market shares.

Fiscal data as of Jul 01 2018	2018	2017	2016	2015	2014
REVENUE AND GROSS PROFIT					
Total revenue	116	105	91	81	75
OPERATING EXPENSES					
Cost of revenue total	37	34	30	27	27
Selling, general and admin. expenses, total	66	60	54	51	53
Depreciation/amortization	--	--	--	--	--
Unusual expense(income)	--	--	--	--	--
Other operating expenses, total	--	--	--	--	--
Total operating expense	103	93	85	78	79
Operating income	13	12	6.37	3.46	(4.25)
Other, net	0.00	(0.01)	(0.03)	(0.03)	(0.05)
INCOME TAXES, MINORITY INTEREST AND EXTRA ITEMS					
Net income before taxes	13	11	5.59	2.93	(4.77)
Provision for income taxes	2.73	2.44	1.51	0.88	(1.08)
Net income after taxes	9.98	8.76	4.08	2.05	(3.68)
Minority interest	--	--	--	--	--
Net income before extra. items	9.98	8.76	4.08	2.05	(3.68)
Total extraordinary items	--	--	--	--	(2.34)
Net income	9.98	8.76	4.08	2.05	(6.02)
Inc.avail. to common excl. extra. items	9.98	8.76	4.08	2.05	(3.68)
Inc.avail. to common incl. extra. items	9.98	8.76	4.08	2.05	(6.02)
EPS RECONCILIATION					
Basic/primary weighted average shares	113	113	103	113	113
Basic/primary eps excl. extra items	0.09	0.08	0.04	0.02	(0.03)
Basic/primary eps incl. extra items	0.09	0.08	0.04	0.02	(0.05)
Dilution adjustment	--	0	--	--	--
Diluted weighted average shares	113	113	103	113	113
Diluted eps excl. extra items	0.09	0.08	0.04	0.02	(0.03)
Diluted eps incl. extra items	0.09	0.08	0.04	0.02	(0.05)
COMMON STOCK DIVIDENDS					
DPS - common stock primary issue	0.02	0	0	0	0
Gross dividend - common stock	1.92	1.81	0	0	0
PRO FORMA INCOME					
Pro forma net income	--	--	--	--	--
Interest expense, supplemental	0.43	0.52	0.86	0.69	0.46
SUPPLEMENTAL INCOME					
Depreciation, supplemental	4.25	3.30	2.52	4.04	3.72
Total special items	0.20	0.11	2.77	0.13	(1.54)
NORMALISED INCOME					
Normalized income before taxes	13	11	8.36	3.06	(6.31)
Effect of special items on income taxes	0.04	0.02	0.75	0.04	(0.54)
Income tax excluding impact of special items	2.77	2.47	2.25	0.92	(1.62)
Normalized income after tax	10	8.85	6.11	2.14	(4.68)

Fiscal data as of Jul 01 2018	2018	2017	2016	2015	2014
OPERATIONS					
Net income	13	11	5.59	2.93	(4.77)
Depreciation/depletion	4.25	3.30	2.52	4.04	3.72
Non-Cash items	1.48	1.40	0.97	0.66	(0.58)
Cash taxes paid, supplemental	2.47	1.83	0.55	0.07	2.11
Cash interest paid, supplemental	0.03	0.26	0.69	0.63	0.34
Changes in working capital	(6.74)	(5.29)	(2.33)	(1.01)	1.48
Total cash from operations	12	11	7.43	6.82	0.26
INVESTING					
Capital expenditures	(12)	(8.4)	(6.39)	(3.13)	(7.46)
Other investing and cash flow items, total	0.34	0.01	0.43	0	--
Total cash from investing	(11)	(8.38)	(5.96)	(3.13)	(7.46)
FINANCING					
Financing cash flow items	--	0	(0.24)	0	--
Total cash dividends paid	(2.48)	--	--	--	--
Issuance (retirement) of stock, net	--	0	12	0.00	0
Issuance (retirement) of debt, net	(6.74)	(0.83)	(1.18)	(0.19)	1.96
Total cash from financing	(9.23)	(0.83)	11	(0.2)	1.96
NET CHANGE IN CASH					
Foreign exchange effects	0.04	0.15	0.12	(0.06)	0.03
Net change in cash	(8.23)	1.99	12	3.44	(5.21)
Net cash-begin balance/reserved for future use	8.47	6.48	(5.7)	(9.13)	(3.74)
Net cash-end balance/reserved for future use	0.24	8.47	6.48	(5.7)	(8.96)
SUPPLEMENTAL INCOME					
Depreciation, supplemental	4.25	3.30	2.52	4.04	3.72
Cash interest paid, supplemental	0.03	0.26	0.69	0.63	0.34
Cash taxes paid, supplemental	2.47	1.83	0.55	0.07	2.11

Fiscal data as of Jul 01 2018	2018	2017	2016	2015	2014
ASSETS					
Cash And Short Term Investments	0.24	8.47	6.48	4.94	4.80
Total Receivables, Net	1.47	0.90	0.97	9.41	16
Total Inventory	13	9.88	6.60	4.49	3.93
Prepaid expenses	6.01	5.13	4.57	4.43	--
Other current assets, total	0.01	0.31	0.44	--	--
Total current assets	20	25	19	23	25
Property, plant & equipment, net	36	31	26	12	14
Goodwill, net	0.93	0.94	0.91	0.68	--
Intangibles, net	1.85	1.40	0.94	0.87	1.51
Long term investments	0.04	--	--	--	--
Note receivable - long term	--	--	--	--	--
Other long term assets	0.07	0	0.09	--	--
Total assets	60	59	47	37	41
LIABILITIES					
Accounts payable	6.80	6.83	5.44	4.63	--
Accrued expenses	5.41	5.51	6.67	4.53	--
Notes payable/short-term debt	0	0	0	11	14
Current portion long-term debt/capital leases	0.20	3.37	0.43	0.95	0.72
Other current liabilities, total	4.72	5.53	4.84	3.05	0
Total current liabilities	17	21	17	24	29
Total long term debt	0.02	3.50	6.64	7.30	7.72
Total debt	0.22	6.88	7.08	19	22
Deferred income tax	--	0	0.08	--	--
Minority interest	--	--	--	--	--
Other liabilities, total	3.46	2.72	1.95	2.44	2.08
Total liabilities	21	27	26	34	38
SHAREHOLDERS EQUITY					
Common stock	0.11	0.11	0.11	0.10	0.11
Additional paid-in capital	12	12	12	0	0
Retained earnings (accumulated deficit)	27	18	8.85	4.23	2.18
Treasury stock - common	--	--	--	--	--
Unrealized gain (loss)	--	--	--	--	--
Other equity, total	0.88	1.05	0.35	(0.54)	(0.16)
Total equity	40	31	21	3.79	2.12
Total liabilities & shareholders' equity	60	59	47	37	41
Total common shares outstanding	113	113	113	113	113
Treasury shares - common primary issue	0	0	0	0	0

HOTEL CHOCOLAT GROUP PLC



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	01/07/2018 GBP	02/07/2017 GBP	26/06/2016 GBP	28/06/2015 GBP	29/06/2014 GBP
Original Documents	2018 12 months Cons. Unqualified IFRS	2017 12 months Cons. Unqualified IFRS	2016 12 months Cons. Unqualified IFRS	2015 12 months Cons. Unqualified UK GAAP	2014 12 months Cons. Unqualified UK GAAP

Profitability ratios

Return on Shareholders Funds (%)	32.08	35.96	27.78	77.92	-332.20
Return on Capital Employed (%)	29.49	29.97	19.41	25.45	-65.25
Return on Total Assets (%)	21.10	19.11	11.96	8.11	-17.40
Profit margin (%)	10.92	10.65	6.14	3.72	-9.29
Gross margin (%)	68.42	67.92	66.81	66.59	64.94
Berry ratio (x)	1.20	1.20	1.12	1.07	0.90
EBIT margin (%)	11.37	11.33	6.99	4.37	-7.43
EBITDA margin (%)	15.71	14.89	10.49	9.80	-2.25

Operational ratios

Net Assets Turnover (x)	2.70	2.81	3.16	6.85	7.02
Fixed Assets Turnover (x)	2.91	3.10	3.24	5.94	4.92
Interest Cover (x)	22.96	16.44	6.90	5.18	-10.58
Stock Turnover (x)	9.27	10.65	13.79	18.04	19.28
Debtors Turnover (x)	110.40	193.93	108.53	138.61	53.24
Debtor Collection (days)	3.31	1.88	3.36	2.63	6.86
Creditors Payment (days)	21.34	23.67	21.80	20.85	27.66

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Financial worksheet > Structure ratios >

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Original Documents	2018 12 months Cons. Unqualified IFRS	2017 12 months Cons. Unqualified IFRS	2016 12 months Cons. Unqualified IFRS	2015 12 months Cons. Unqualified UK GAAP	2014 12 months Cons. Unqualified UK GAAP

Structure ratios

Current ratio (x)	1.18	1.16	1.04	0.93	0.85
Liquidity ratio (x)	0.45	0.70	0.67	0.75	0.71
Shareholders liquidity ratio (x)	11.39	5.01	2.32	0.49	0.24
Solvency ratio (Asset based) (%)	65.78	53.15	43.07	10.41	5.24
Solvency ratio (Liability based) (%)	n.s.	n.s.	75.65	11.62	5.53
Asset Cover (x)	n.s.	16.73	7.04	5.09	5.24
Gearing (%)	9.29	30.79	45.26	506.03	n.s.

Per employee ratios

Profit per employee (unit)	10,183	10,591	5,999	3,633	-8,621
Turnover per employee (unit)	93,214	99,471	97,736	97,791	92,777
Salaries/Turnover	26.35	27.05	27.26	27.02	28.13
Average Remuneration per employee (unit)	24,566	26,902	26,647	26,425	26,098
Shareholders Funds per employee (unit)	31,740	29,455	21,598	4,663	2,595
Working Capital per employee (unit)	5,456	3,398	2,150	539	-475
Total Assets per employee (unit)	48,253	55,418	50,150	44,789	49,549

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.

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