CANACCORD Genuity
Wealth Management

# Intelligent Investing

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## Market Review

Markets have regained their poise over the last few weeks, as the effects of US and UK political uncertainty in investors' minds have waned – at least for the time being. Bond yields have stayed low, despite the decision by the US Federal Reserve to raise interest rates by 0.25% and provide more details of their plans to scale down quantitative easing. Equities appear unfazed by Trump's travails and the surprise UK general election result. All seems well as the summer sun shines.

Importantly, the global economic outlook is supporting this renewed poise. Although the US has slowed slightly, this is off good levels with very low unemployment and plenty of stronger data. In Europe activity is picking up, with the German economic engine now being joined by better growth from France. Certainly the election of Emmanuel Macron has helped, although now he's in power with a strong majority, the hard work of reform and facing up to powerful vested interests begins.

It's perhaps ironic that just as Brexit negotiations begin, confidence in the European project – and perhaps even its call for an ever-closer union – has grown stronger, not weaker. The Franco-German axis seems reinvigorated by Macron's election successes. And the likely victory of Angela Merkel in Germany's September parliamentary election would put the seal on this new sense of purpose.

The UK picture is less convincing. There's the weakened Conservative minority government after Theresa May's unsuccessful gamble at the ballot box, and divergent economic data make it uncertain as to whether the BoE will raise interest rates soon or not.

From our perspective, this isn't necessarily bad news. Most UK-listed company earnings come from overseas anyway, and the prospect of lower interest rates here for longer will help support the bond market – even if UK growth disappoints.

In this issue we look at RPC, the company leading the consolidation of the European rigid plastic packaging industry. We also shine the spotlight onto Ibstock, the Leicestershire-based brickmaking business. In Europe we pore over Pandora, the eponymous Danish jewellery company. Finally, for our investment trust article, we examine sustainable investing specialist IMPAX, which offers access to a fascinating global portfolio of companies in the environmental and resource efficiency markets.

Our regular screens consider opportunities for UK dividend income – always useful in a yield-hungry world. And in Europe we highlight companies with a track record of strong sales growth that look set to benefit from the region's improving economic climate.

Equity and bond valuations are high and it would be no surprise to see a pull-back at some point. However, we still believe that global fundamentals are supportive of risky assets like shares. And we'd see any such correction as an opportunity to add to interesting investments at better prices.

**Richard Champion**
Deputy Chief Investment Officer, UK

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## Safe as houses

Ibstock is a Leicestershire-based brick-making business, manufacturing 40% of the clay bricks produced in the UK. It's one of three main players (Forterra and Wienerberger being the other two) that dominate the sector, commanding over 90% of the market.

While the UK Government continues to look to boost housing output with its goal of 250,000 new houses per annum, UK brick capacity is more than 20% below where it stood pre-global financial crisis. And after a ramp up in building activity in recent years, a chronic supply shortage now exists with c.10% of UK demand being imported from mainland Europe. Over this period, UK brick pricing has remained extremely robust with average annual price increases of 4% per year since 2000.

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Further industry consolidation in bricks looks unlikely, and of the three dominant players, Ibstock is the only one with the foresight to bring new capacity onto the market with an additional plant due for completion shortly.

In industries such as this, being the market leader is very advantageous. Ibstock's vertically integrated business model is both difficult and costly to replicate as it owns its own supply chain. New entrants must also overcome significant planning hurdles before developing a new site, and be willing to wait several years before earning a return on their original investment. And even if they do get that far, their limited product range may not appeal to larger distributors.

In addition to the Ibstock brick brand, which generates 58% of total revenues, the company offers diversification through its three other brands – each well positioned in structurally attractive markets:

1) **Supreme:** UK market leader in fencing and lintels
2) **Forticrete:** UK market leader in cast stone and niche tiles
3) **Glen-Gery:** a leading US clay brick manufacturer.

Ibstock has risen 24% since its 2015 listing, but the shares still look attractive on just 12.7x 12-month forward earnings. We believe there's still plenty of additional upside for new investors given that management have a clearly defined dividend policy, returning excess cash (if net debt/ EBITDA < 1.0x) to shareholders through special dividends – and the balance sheet is rock solid.

**Simon McGarry**
Senior Equity Analyst

### Ibstock

| | |
|---|---|
| Market Cap | £1.0bn |
| Share Price | 251p |

| | 2016A | 2017F | 2018F |
|---|---|---|---|
| Revenue (£m) | 435 | 465 | 493 |
| Earnings per Share (p) | 16.4 | 18.8 | 20.9 |
| Dividend per Share (p) | 7.7 | 8.4 | 9.5 |
| Dividend Yield | 4.2% | 3.4% | 3.8% |
| Free Cash Flow Yield | 4.7% | 6.7% | 8.4% |
| Price Earnings Ratio | 11.2 | 13.3 | 12.0 |
| Return on Capital Employed | 18.6% | 20.0% | 20.2% |

Source: Quest®
Note: 2017 and 2018 are forecast years

## Plastic fantastic

RPC Group is a plastic product design and engineering company, and Europe's largest supplier of plastic packaging. Its ubiquitous products serve a wide range of markets including food, beverage, cosmetics and healthcare.

In 2013 the company launched Vision 2020, a strategy designed to build on its strong market position and leading product and process innovation capabilities. The four key elements are:

1) **Focus on organic growth in selected packaging and non-packaging markets:** From 2013 to 2016 RPC delivered organic growth that was more than twice GDP growth.
2) **Make selective acquisitions within Europe:** As the European market leader (6% share) it can obtain greater cost synergies from these deals. A recent review of acquisitions completed since 2013 outlined that the deals have delivered better-than-group-average organic growth of 3.2%.
3) **Create a meaningful presence outside of Europe (86% of revenues):** Over the last six months alone RPC has acquired US-based Letica for US$640m, South Africa's Astra Pak for £79m and Australian start-up Amber Plastics.
4) **Pursue added-value opportunities in non-packaging market:** Extending core competencies to selected niches, e.g. specialty vehicles.

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Despite all this, RPC has had a tough 2017, with shares down 25% as the market struggled to digest the 81m new shares issued as part of the Letica rights issue. Then in late March the shares sold off again on the back of a broker note which raised a number of concerns including:

- Employment costs were out of control
- Using aggressive accounting policies to flatter earnings
- No longer able to pass raw materials price changes onto customers
- Management have been selling stock
- Brokers that cover RPC lack independence.

On the back of this report, we thought we'd reassess our initial investment thesis. After discussing the concerns raised with RPC management (twice) and other brokers that cover RPC – as well as reviewing the full-year results (published in June) – we believe that it remains very much intact and that most of the concerns were without merit.

Trading on 11.2x current-year earnings (compared with the 14.8x averaged over the last two years), and considering that full-year earnings were significantly better than expected, we believe RPC still presents an attractive investment opportunity.

**Simon McGarry**
Senior Equity Analyst

### RPC Group

| | |
|---|---|
| Market Cap | £3.1bn |
| Share Price | 749p |

| | 2017A | 2018F | 2019F |
|---|---|---|---|
| Revenue (£bn) | 2.7 | 3.6 | 3.8 |
| Earnings per Share (p) | 66.0 | 65.4 | 73.9 |
| Dividend per Share (p) | 24.4 | 26.8 | 28.3 |
| Dividend Yield | 2.9% | 3.6% | 3.8% |
| Free Cash Flow Yield | 6.2% | 6.9% | 9.0% |
| Price Earnings Ratio | 12.9 | 11.5 | 10.1 |
| Return on Capital Employed | 9.1% | 12.6% | 13.7% |

Source: Quest®
Note: 2018 and 2019 are forecast years

## Good yield hunting

The search for yield has intensified, with UK 10-year bond yields of just 1.15% close to a three-month low – and well below historical averages. The larger Eurozone economies don't fare much better, with Germany offering 0.26%, France 0.71%, Spain 1.41% and Italy 2.02%. Nor does the US 10-year yield look particularly enticing at just 2.23%.

Regular readers will know that one of our favoured themes is to search for companies with the ability to sustain and grow their dividend gradually over time. We believe a high dividend yield is never reason enough to buy a stock, so we consider a combination of the following:

- Stable business model protected by a wide moat of competitive advantage
- Strong cash flows that are predictable and steadily growing
- High and defensible returns on invested capital
- Management aligned with shareholder interests
- Strong balance sheet with controlled leverage
- Rational capital allocation policy
- Low regulatory or external business model risk.

In past editions we've used dividend cover (how many times earnings cover dividends) as a key screening criteria. While this remains important, a new metric has been added to Quest® - Canaccord Genuity's proprietary stock picking tool - which measures whether the dividend is covered by free cash flow, and by how much. This identifies whether a company is either burning cash or running up debt in order to finance the dividend.

This month's screen searches companies with respectable dividend yields (> 4%), decent cover (>1.5x), projected growth (> 5%) and, importantly, where free cash flow yield** exceeds the dividend yield by at least two percentage points. The resulting list of 14 companies includes **Dunelm**, **ITV**, **Rio Tinto** and **Saga** - each of which we've featured in previous editions of this publication.

** See glossary for more details

UK equity screen

### Search Criteria

1. 12-month forward dividend yield greater than 4.0%
2. 12-month forward dividend cover is greater than 1.5x
3. 12-month forward consensus dividend per share growth of more than 5%
4. 12-month forward dividend yield headroom** of more than 2%

| | | | 12-month forward | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Company name | Industry | Market Cap (£m) | Dividend yield headroom | Free cash flow yield | Dividend yield | Dividend cover | Dividend per share growth | Net debt/ EBITDA | Price performance over 12 months |
| Countrywide | Real Estate Management and Development | 367 | 11.9% | 15.9% | 4.0% | 3.2 | 21.3% | 2.5 | -38% |
| AA | Diversified Consumer Services | 1,347 | 7.6% | 12.2% | 4.5% | 2.5 | 5.8% | 6.1 | 0% |
| Ladbrokes Coral | Hotels Restaurants and Leisure | 2,149 | 5.5% | 9.9% | 4.4% | 2.6 | 40.8% | 1.7 | 2% |
| ITV | Media | 7,336 | 3.9% | 8.7% | 4.7% | 1.8 | 12.7% | 0.5 | 10% |
| Rio Tinto PLC | Metals and Mining | 56,579 | 3.7% | 9.7% | 6.0% | 1.7 | 23.2% | 0.2 | 48% |
| Man Group | Capital Markets | 2,579 | 3.5% | 8.4% | 4.9% | 1.7 | 5.3% | -1.5 | 39% |
| Pendragon | Specialty Retail | 444 | 3.3% | 8.5% | 5.2% | 2.6 | 7.7% | 3.8 | 16% |
| Kier | Construction and Engineering | 1,200 | 3.0% | 8.7% | 5.7% | 1.7 | 5.8% | 0.3 | 18% |
| Bellway | Household Durables | 3,694 | 2.9% | 7.1% | 4.2% | 3.0 | 7.9% | -0.4 | 68% |
| Saga | Insurance | 2,298 | 2.9% | 7.6% | 4.7% | 1.6 | 10.2% | 1.1 | 10% |
| Conviviality | Food and Staples Retailing | 522 | 2.4% | 6.9% | 4.5% | 1.8 | 9.2% | 1.0 | 69% |
| Dunelm | Specialty Retail | 1,237 | 2.4% | 6.8% | 4.4% | 1.9 | 5.5% | 0.2 | -20% |
| Galliford Try | Construction and Engineering | 960 | 2.4% | 11.0% | 8.6% | 1.7 | 7.3% | -0.3 | 30% |
| Safestyle UK | Building Products | 253 | 2.3% | 6.3% | 4.0% | 1.7 | 6.5% | -1.0 | 35% |

Source: Quest®

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**Past performance and future forecast figures are not a reliable indicator of future results.**

## Europe's time to shine

We continue to like European equities for those seeking shelter from Brexit uncertainty in the UK. Not just as a result of the steadily-improving economic backdrop on the Continent, but also due to their relative underperformance compared with both US and UK equities.

It's 10 years since equity markets reached their pre-crisis highs and European equities - as measured by the STOXX Europe 600 (ex UK) Index - are no higher than they were in 2007. Compare this with the S&P 500 in the US (some 60% above its 2007 high) and the FTSE 100 (around 10% higher), although it's important to note that the FTSE 100 performance has been boosted by sterling weakness. Redenominate the index into Euros and it's actually almost 15% below the 2007 peak.

One of the facets of the post-financial crisis recovery on both sides of the Atlantic has been the lack of sales growth, as companies focus on cost cutting to drive profit growth. Over the last five years sales growth in the US and Continental Europe has averaged 1.4%pa and 0.4%pa respectively. Meanwhile, in the UK it's been negative, with a -1.2% five-year average. Compare these figures with pre-financial crisis five-year average sales growth of 10.6% in the US, 7.9% in Continental Europe and 13.9% in the UK.

In looking for European stocks that are likely to outperform, we've screened the Canaccord Quest® Continental European universe for companies that have a track record of sales growth (an average of at least 3%pa over the last five years) and that are forecast to grow sales by at least 6% this year. Not wishing to sacrifice profitability in our search for growth, we also set a 6% EPS growth hurdle for this year.

In the table below, we highlight 13 companies that meet our criteria, including global brewing giant **AB InBev**, which has significant growth and synergy opportunities following last year's acquisition of SABMiller. We also feature **Henkel**, inventor of Persil detergent in 1907 (now sold under licence in the UK by Unilever), and Danish charm bracelet jeweller **Pandora**, covered in a separate article in this issue.

EUROPEAN

equity screen

| | | | | 12-month forward | | | | Current year | |
|---|---|---|---|---|---|---|---|---|---|
| Stocks | Country | Industry | Market cap €(bn) | Price earnings ratio | Dividend yield | Dividend cover | Sales growth - 5 year average | Sales growth | EPS growth |
| A-B InBev | Belgium | Beverages | 193.9 | 24.3 | 3.4% | 1.2 | 8% | 16% | 44% |
| Inditex | Spain | Specialty Retail | 107.5 | 28.2 | 2.3% | 1.5 | 11% | 12% | 15% |
| L'Oreal | France | Personal Products | 106.3 | 26.6 | 2.0% | 1.9 | 5% | 7% | 11% |
| BMW | Germany | Automobiles | 54.9 | 7.9 | 4.4% | 2.9 | 7% | 11% | 7% |
| Henkel | Germany | Household Products | 54.4 | 20.7 | 1.5% | 3.2 | 4% | 10% | 7% |
| adidas | Germany | Textiles Apparel and Luxury Goods | 33.9 | 25.5 | 1.5% | 2.6 | 8% | 13% | 28% |
| Amadeus IT | Spain | IT Services | 23.0 | 22.2 | 2.0% | 2.2 | 10% | 9% | 20% |
| Givaudan | Switzerland | Chemicals | 16.2 | 24.6 | 3.1% | 1.3 | 4% | 7% | 26% |
| Pandora | Denmark | Textiles Apparel and Luxury Goods | 9.3 | 10 | 5.9% | 1.7 | 25% | 15% | 13% |
| Davide Campari | Italy | Beverages | 7.2 | 26.2 | 1.0% | 3.9 | 6% | 10% | 41% |
| Wirecard | Germany | IT Services | 7.0 | 23.7 | 0.4% | 11.8 | 27% | 27% | 43% |
| Fnac Darty | France | Specialty Retail | 1.8 | 11.6 | 0.7% | 12 | 5% | 38% | 175% |
| Thule Group | Sweden | Leisure Products | 1.7 | 20.4 | 2.5% | 1.9 | 6% | 9% | 16% |

Source: Quest®

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**These figures above are shown in euros. These returns may differ significantly when converted to other currencies at the prevailing exchange rates. Past performance and future forecasts are not reliable indicators of future results.**

## Undeniable charm

Pandora was founded over 30 years ago as a small jeweller's shop in Demark. However, since the launch of its highly successful charm bracelet concept in 2000 (which still accounts for 77% of group sales today), Pandora has seen rapid international growth – mainly via third-party distributors. Today the company is a vertically-integrated business with state-of-the-art production facilities in Thailand and a global marketing and distribution network.

Over the last five years, sales have almost trebled, while the company's 39.1% EBITDA margin is some 20 percentage points ahead of the global textile, apparels and luxury goods sector average. Having significantly outperformed European equity markets in the five years leading up to last summer, the shares have since dropped back by 30% on investor concerns that Pandora is too dependent on both the charm bracelet concept and its key western markets. However, we believe that Pandora's strategy of product diversification, focusing on branded and owned stores and emerging-market expansion should more than compensate for these concerns.

For example, in recent years Pandora has increasingly focused on rings and earrings, with these categories seeing significant sales growth (45% and 57% respectively) during the first quarter of this year. Furthermore these two categories represent a potential global market nearly three times greater than that for bracelets. And in terms of emerging-market growth, sales to China (the world's biggest jewellery market) increased by 125% during Q1, helping the Asia Pacific region account for 25% of group sales.

Finally, the recent share price weakness has meant that the 12-month forward P/E of 10.0x is attractive when compared with the 13.3% earnings growth forecast over the same period.

**Marc Pullen**
Senior Equity Analyst

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EUROPEAN equities

### Pandora

| | |
|---|---|
| Market Cap | 69.1bn DKK |
| Share Price | 662 DKK |

| | 2016A | 2017F | 2018F |
|---|---|---|---|
| Revenue (bn DKK) | 20.3 | 23.3 | 26.2 |
| Earnings per Share (DKK) | 52.1 | 58.8 | 67.0 |
| Dividend per Share (DKK) | 9.0 | 36.0 | 38.3 |
| Dividend Yield | 1.0% | 2.0% | 2.0% |
| Free Cash Flow Yield | 5.3% | 8.4% | 9.5% |
| Price Earnings Ratio | 16.6 | 10.6 | 9.3 |
| Return on Capital Employed | 85.0% | 89.0% | 95.7% |

Source: Quest®
Note: 2017 and 2018 are forecast years

**These figures above are shown in euros. These returns may differ significantly when converted to other currencies at the prevailing exchange rates.**

## The grass is greener

Impax Environmental Markets (IEM) offers investors exposure to a global portfolio of companies in the environmental and resource efficiency market. This investable universe is rapidly expanding, comprising 1,100 companies – up from 250 in 1999. And yet, importantly, it's an under-researched space, providing a supportive environment for active management.

IEM differentiates itself from its peers by adopting the following approach:

- Diverse exposure to a range of markets such as energy efficiency, alternative energy, water, waste and sustainable food and agriculture
- Global portfolio diversified by size, sector and geography, rather than a more UK-centric play
- A balance between cyclical and defensive companies which is less susceptible to violent fluctuations.

The portfolio has consistently delivered superior growth over the long term. The shares are up 9.1% year-to-date versus a peer average of -1.9%. Investors in environmental markets are, understandably, concerned about the implications of climate change sceptic Donald Trump and his environmentally challenged Cabinet. However, we believe that while the impact is mixed, much of the negativity is likely overdone:

- Many environmentally focused companies have built business models that don't rely on subsidies or regulatory support. Rather, they help their customers to reduce resource use and cut costs. Industrial energy efficiency offers some of the highest returns on investment that companies can make with their capital expenditure.
- Trump has stated his intention to boost infrastructure spending - a plan with broad bipartisan support. This should benefit environmental markets, especially new water infrastructure. While considerable uncertainty remains on the ground, as well as how to integrate new initiatives with existing mechanisms, water infrastructure has been specifically highlighted as a focus area for investment.
- Promises to cut corporate tax rates will also benefit the environmental markets sector, which largely comprises of small and midcap firms. Rising interest rates shouldn't pose issues for environmental firms as they tend to carry relatively low levels of debt.

To conclude, the drivers of environmental markets continue to gather momentum and the reasons to invest remain as compelling as ever. And IEM's current discount presents an attractive opportunity to access a high-quality team who are well equipped to take advantage.

**Patrick Thomas**
Investment Manager

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INVESTMENT trusts

### Impax Environmental Markets

| | |
|---|---|
| Market Cap | £422m |
| Share Price | 234p |
| NAV | 263p |
| Premium/(Discount) | (11.0%) |

**Past performance and future forecast figures are not a reliable indicator of future results.**

## Profit Takers

In addition to providing insight and analysis of particular investment opportunities each month, we also review stocks that have shown strong performance in recent months and as a result investors might consider taking profits. Please do contact your Portfolio Manager to discuss any of these ideas or any other aspect of your portfolio held at Canaccord Genuity Wealth Management.

| | | | | | | | Performance over previous | | |
|---|---|---|---|---|---|---|---|---|---|
| Company name | Market cap (£m) | Share price (p) | Prior FY dividend per share (p) | Current FY dividend per share (p) | Prior FY price earnings ratio | Current FY price earnings ratio | 1 month | 3 months | 6 months |
| boohoo.com | 2,686 | 234 | 0.0 | 0.0 | 42.5 | 79.6 | 11% | 45% | 71% |
| Sophos Group | 2,043 | 443 | 3.7 | 4.1 | -264 | 73.1 | 2% | 58% | 69% |
| Stobart Group | 1,034 | 295 | 13.5 | 18.0 | -217 | 69.4 | 9% | 41% | 67% |
| Burford Capital | 1,872 | 899 | 7.4 | 8.9 | 7.9 | 17.9 | 0% | 12% | 65% |
| Hutchison China MediTech | 2,118 | 3,490 | 0.0 | 0.0 | 124.6 | -311.9 | 13% | 10% | 53% |
| Fevertree Drinks | 1,930 | 1,675 | 6.3 | 7.0 | 31.2 | 60.6 | -3% | 13% | 49% |
| G4S | 5,185 | 335 | 9.4 | 9.9 | 11.7 | 18.2 | 2% | 11% | 45% |
| Renishaw | 2,683 | 3,686 | 48.0 | 50.6 | 20.4 | 30.9 | 1% | 16% | 45% |
| Paysafe Group | 2,521 | 520 | 0.0 | 0.0 | 12.4 | 15.6 | 5% | 13% | 43% |
| Countryside Properties | 1,544 | 343 | 3.4 | 8.1 | 15.7 | 12.7 | 5% | 45% | 42% |
| Hochschild | 1,420 | 280 | 2.2 | 3.2 | 20.8 | 26.1 | -3% | 3% | 42% |
| Intl Cons Airlines | 13,188 | 630 | 20.1 | 24.9 | 5.7 | 7.3 | 3% | 18% | 42% |
| NMC Health | 4,433 | 2,170 | 10.6 | 13.2 | 17.7 | 27.9 | -1% | 24% | 42% |
| WS Atkins | 2,022 | 2,076 | 12.5 | 44.7 | 9.8 | 17.0 | 0% | 41% | 41% |
| Kaz Minerals | 2,248 | 504 | 0.0 | 0.0 | 7.2 | 8.9 | -1% | 12% | 38% |
| Convatec | 6,239 | 324 | 0.0 | 5.2 | 273.0 | 21.4 | 0% | 21% | 37% |
| Berendsen | 2,048 | 1,195 | 33.0 | 33.2 | 18.1 | 20.6 | 9% | 57% | 37% |
| Vesuvius | 1,472 | 545 | 16.6 | 17.3 | 11.0 | 15.0 | -6% | 3% | 37% |
| Coca-Cola HBC | 8,511 | 2,336 | 37.6 | 44.8 | 17.5 | 24.1 | 3% | 15% | 36% |
| Capita | 4,662 | 701 | 31.7 | 31.7 | 16.2 | 13.3 | 23% | 27% | 36% |
| easyJet | 5,386 | 1,360 | 53.8 | 38.2 | 13.4 | 17.3 | -2% | 36% | 34% |
| IWG | 3,008 | 329 | 5.1 | 5.7 | 19.6 | 18.1 | -2% | 4% | 34% |
| Fresnillo | 11,459 | 1,555 | 24.4 | 22.0 | 26.7 | 34.0 | -2% | 0% | 33% |
| Rathbone Brothers | 1,268 | 2,563 | 57.0 | 59.7 | 16.4 | 20.0 | 1% | 10% | 33% |
| Rolls-Royce | 16,733 | 910 | 11.7 | 12.6 | 12.6 | 27.1 | 4% | 21% | 33% |
| 3i Group plc | 8,760 | 916 | 16.0 | 26.1 | 4.0 | 9.8 | 5% | 31% | 32% |
| LSE | 12,950 | 3,730 | 43.2 | 48.9 | 21.6 | 25.2 | 10% | 23% | 31% |
| Persimmon | 7,017 | 2,274 | 135.0 | 129.0 | 9.1 | 10.4 | -7% | 8% | 30% |
| Grafton | 1,709 | 721 | 13.8 | 15.0 | 13.0 | 14.4 | -7% | 4% | 30% |
| Unilever | 120,270 | 4,273 | 110.4 | 122.8 | 19.8 | 22.5 | -1% | 7% | 30% |

Source: Quest®

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**Past performance and future forecast figures are not a reliable indicator of future results.**

## Glossary

**The glossary is not intended as a technical definition as most of these metrics can be calculated in a number of different ways.**

| | |
|---|---|
| **Constant currencies:** | Constant currencies are exchange rates that eliminate the effects of exchange rate fluctuations when calculating financial performance. |
| **Bad Debt Ratio:** | Specific bad debts charge as a percentage of average loans and advances. |
| **Dividend Cover:** | A measure of the ability of a company to maintain the level of dividend paid out. It is calculated as normalised earnings divided by the ordinary net dividend. |
| **Dividend Yield:** | Dividend per share divided by the share price, often expressed as a percentage. For historic periods the average share price for the year is used, for forecasts the current share price is used. |
| **Dividend Yield Headroom:** | Free cash flow yield less dividend yield. |
| **Earnings per Share (EPS):** | An indicator of a company's profitability, it is the portion of profit after tax allocated to each outstanding share in issue. |
| **Enterprise Value (EV):** | Market capitalisation + net debt. |
| **Free Cash Flow:** | Cash generated after interest, tax and net capital expenditure but before acquisitions, dividends and share issues or buybacks. |
| **Free Cash Flow Yield:** | Free cash flow dividend by the share price. |
| **Gearing:** | Gearing is a measure of leverage and is calculated as net debt/shareholder equity. |
| **Net Asset Value (NAV):** | Net asset value (NAV) is value per share of a mutual fund or an exchange-traded fund (ETF) on a specific date or time. With both security types, the per-share dollar amount of the fund is based on the total value of all the securities in its portfolio, any liabilities the fund has and the number of fund shares outstanding. |
| **Price Earnings Ratio (P/E):** | Share price divided by EPS. For historic periods the average share price for the year is used, for forecast years, the current share price is used. It shows how much investors are willing to pay per pound of earnings. |
| **Quest®:** | Canaccord Genuity's proprietary online valuation and analytical tool which combines consensus market figures with the Quest® Discounted Cash Flow (DCF) Valuation Model. |
| **Return on Capital Employed (ROCE):** | A measure of a company's profitability and the efficiency with which it uses its capital. It is calculated as operating profit divided by capital employed. |
| **Return on Equity (RoE):** | Net income (before exceptional items and goodwill amortisation) divided by book value of equity. RoE reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. |
| **Tables:** | F- Forecast results, figures based on the combined estimates of analysts covering the company.<br>A- Actual results, company's published results. |
| **Tables:** | F- Forecast results, figures based on the combined estimates of analysts covering the company.<br>A- Actual results, company's published results. |

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**Investment Recommendation:**

Date and time of first dissemination: 03.07.2017 - 10.00AM ET

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**Buy:**

Unless otherwise stated, at the time of the recommendation we consider there is a material upside to the current share price.

**Price:**

Prices are as at market close on 28.06.2017

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