STOCKWATCH UK

THE UK DIVIDEND OUTLOOK……According to the VT Munro fund, in the monthly newsletter a rise in sterling (in January) had the effect of reducing the value of overseas earnings, and hence forecast dividends. This is however a regular occurrence and works both ways. The net effect was a reduction of 1.8% to £107.6 billion in the dividends expected to be paid by the largest UK companies. The dividends declared by this fund in the 12 months to end January reached a record 7.1p an accumulation unit units and 4.7p for the income units putting them on a yield of 5.2%. HSBC is the biggest divi payer in the market, as usual.

THE FULHAM SHORE…**Welsh Pizza site openings**.

It seems the sour dough pizza brand Franco Manca (one half of Fulham Shore PLC food offer) is set to open its first restaurant in Wales. The shares remain at 10p. The company plans to launch a pizzeria in Church Street in Cardiff city centre. A licensing application has been submitted to Cardiff Council to transform a unit previously occupied by vegetarian restaurant Atma, as has been reported hence the expansion news got out. With the December interims Fulham Shore reported revenues of £33m (2017: £27.5m) and it was pointed out there were plans to increase openings for Franco Manca and its other brand, The Real Greek. Manca has about 40 restaurants in the UK, the majority in London with an Edinburgh opening soon. The one in Brighton was closed due to insufficient profits, nice view that it had so sensible heads exist within. Cambridge, a recent opening is doing well I was told. Internally funded growth is the funding methodology, having taken the foot off the gas and cost around £700k a site with the pizza oven/kitchen costing £50kish. . If you slow down spending, the corporate cash piles up. The PLC is in control of its destiny. Sites are being offered at deduced rates compared with recent years. On paper there are Ingredient issues due to Brexit as the lemons, cheese and tomatoes are imported from small family farms. Bst stick with the beer, rather than wine. All part of the fuzzy feeling you get with FM. The directors have a big stake.

MERLIN ENTERTAINMENT…..FY results 28/2. News flow begins.

FY results are due 28/2 and Numis have written a note pointing to the undervalued nature of the PLC. Fair enough. The shares have been toxic since the 2015 Alton Towers issue, Euro weakness, Brexit, weather and the high capex and made little progress. The NUMIS target price is 40% ahead of the SP. The 16/10 trading update confirmed numbers were in line but in reality the shares are back to levels seen on early 2018. Recently Merlin has opened two parks, in Dubai and Japan (RNS) and added New York (opens 2020) and Korea to its development pipeline which it is estimated will deliver a 12% pre-tax return. China is a long term plan. The Korean investment is £205m with a local investor contributing £50m, to open 2022 with 24m people within 1 hours drive of the asset. This will be the tenth park. NUMIS reckon the assets are worth £3bn. The PLC has been keeping its head down in recent years as it develops overseas with parks, hotels etc. The step up in capex required to build two major theme parks is substantial and will clearly limit free cash over the next three years. A feel a corporate push about to occur. Funding is largely from internally generated cash and with no increase in group leverage, which remains within the group's two to three times target. The midway division has been disappointing in recent years, as evidenced in flat Ebitda over the past five years and fall in return on capital expenditure from 14.3% to 10.5% over the period, NUMIS highlight. The 2017 terror attach in London did not materially hit tourist numbers. While some concepts are being de-emphasised, other brands have great potential in our view, particularly the Peppa Pig franchise, opened in October in China (owned by Entertainment One PLC and been a winner). Bear Grylls in Birmingham too. Merlin's London exposure will go from being a recent drag to being positive this year and recent visitation data is very encouraging being up 9% in the past three months. Brexit and London? The London Eye is still the second highest-ranked paid attraction in the city after 20 years(remember the finance history here). Merlin trades on a FY19 p/e of 16.2 times, EV/Ebitda of 9.3 times being attractive value for a global leading intellectual property, asset backing and with a strong pipeline of new assets. IFRS 15, the new revenue accounting changes will add £30-35m to Merlins revenue line, the PLC has stated. Funding is long term, in the debt market plus local partners. Not forgetting accesso plc are suppliers of the ticketing technology for the parks. Where Merlin go, accesso do too. AGM update will follow.

DOTDIGITAL....Three brokers, £250m market cap PLC

Finals are due 19/2 and today it looks like a third broker has been appointed being Canaccord, finnCap, and N+1. Mifid2 reaction to research/ liquidity provision must be costing shareholders close to £200ka year.

DUKE ROYALTY......TAKES OUT THE OPPO = GREEN CARD, NOT RED.

Interesting RNS today as DUKE has taken out the only known competitors they have in the UK. Not that this allows super normal pricing but it interesting as cost savings are immediate and uses up funds raised a while ago. Capital Step, the target is funded by Honeycomb IT for £11.65m and has 2 experienced debt financiers (one from Wonga) and a proprietary network for sourcing leads. There are 6 standalone investments . Pollen Street capital provided the credit source, a spin out form RBS with £2.6bn of assets so in the future DUKE will use Pollen to finance the debt before fund raising so reducing the cash drag. The implied EV is £21m with £10m in cash handed over and £11.65m of debt taken on. The revenue was £1.9m and lost £200k. There are £16.8m of loyalties. 15% is the lend cost, being at the higher end to DUKE menu card. DUKE shares are below the 44p issue price of the last funding, last summer when £44m was raised.

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