

# Melrose Industries PLC

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## Royal Mail set to deliver half-year update, with Kingfisher and easyJet also on the agenda

With a quieter week ahead for economic data and central bank events more attention will be paid to company news, with a steady stream of updates and results expected through the coming days.

There are televised pre-election debates between political party leaders on Tuesday and Friday evening, which could send the polls and maybe the pound moving.

### It's in the post

Polls are also an issue for Royal Mail PLC (LON:RMG), which reports its half-year results on Thursday but with investors more focused on the coming festive period and political events than the company's operating performance in the previous six months.

On this front, Royal Mail recently celebrated a High Court court victory to block the proposed strike action by staff over Christmas due to "potential irregularities" in the Communication and Workers Union's balloting procedure.

These tensions will continue to linger through what is the company's most important time of year, while management will be quizzed on whether the delivery group can stick to its forecast of a 5%-7% decline in letter volumes this year, as well as hear about the progress on its five-year turnaround plan to reorient the business to have more of a focus on parcels, as well as diversifying its international business and cutting costs.

There isn't much confidence around, with shares in the postal carrier having lost a quarter of their value since hitting year-highs of 300p in January.

### Kingfisher's new king faces his public

A third-quarter trading update on Wednesday from DIY retailer Kingfisher plc (LON:KGF) will feature the debut of new chief executive officer Thierry Garnier, the former Carrefour Asia boss who replaced Véronique Laury in September.

Laury, whose exit was announced in March, had struggled to turn around the sprawling owner of B&Q, Screwfix and Castorama, based around a five-year One Kingfisher plan including the creation of a more unified product offer.

In the first half of the year, group like-for-like sales (LFL) fell 1.8% on a constant currency basis, with the second quarter down 4.0% after a 0.8% increase in the first quarter.

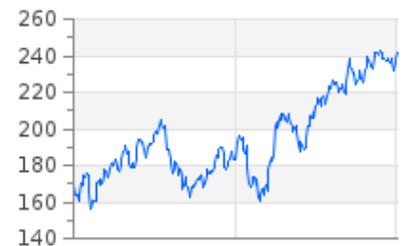
The blame was placed at the doorstep of Castorama, as well as a poor showing from B&Q in the UK where LFL sales slipped 3.2% on the back of the implementation of new ranges of décor, while the UK's Screwfix grew LFLs by 5.1%.

"Analysts will also look to Monsieur Garnier for any update on earnings guidance for the year," said Russ Mould at AJ Bell. "Kingfisher has given relatively few specific forecasts but has previously said that it expects gross margin to come

**Price:** 245.2

**Market Cap:** £11.91 billion

### 1 Year Share Price Graph



January 2019 July 2019 January 2020

### Share Information

**Code:** MRO

**Listing:** LSE

**52 week High Low**  
254.6 154.2

**Sector:** Manufacturing & engineering

**Website:** www.melroseplc.net

### Company Synopsis:

Melrose floated with the strategy of acquiring businesses whose operational performance can be improved to create shareholder value. Since then, Melrose has acquired several engineering companies, including Dynacast, McKechnie, FKI, Nortek and GKN. Melrose went on to sell a large part of McKechnie in August 2007, and returned the bulk of the proceeds to shareholders.

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in flat (excluding Russia and Iberia), including between £30m and £35m of additional stock clearance costs (up from prior estimates of £25-30m)".

The consensus forecast is for Kingfisher to deliver full-year adjusted pre-tax profits of £607m, up from £573m last year.

easyJet hoping for steady landing from full-year results

In a trading update in early October, budget airline easyJet PLC (LON:EZJ) said its full-year profit will land at the higher end of its guidance, so investors will be hoping there are no nasty surprises in its finals on Tuesday.

With costs rising 12% on last year, the FTSE 100-listed firm's annual profit before tax (PBT) is expected to touch down between £420m and £430m.

That would represent a 25%-27% decline from the £578m PBT posted in 2018 but it will be in the upper half of the airline's management's earlier £400m-£440m targets and above the £417m analyst consensus.

Investors, meanwhile, will be looking for any progress in the airline's "self-help initiatives" to help offset rising costs, as well as any more detail on the 18 new airport slots the company purchased earlier this month that were left vacant by the collapse of Thomas Cook.

Melrose still on track

Another turnaround is underway at Melrose Industries PLC (LON:MRO) but that is the main business of the directors there, whose latest and biggest ever project is GKN, which was the subject of a hostile takeover a year and a half ago.

In the first half of 2019 GKN's three main divisions were said to be on track to meet targets, with adjusted and statutory revenues both doubling.

Referring to the group's 'buy, improve, sell' maxim, Melrose chairman Justin Dowley said: "These results show the initial fruits of the 'improve' stage of Melrose's ownership of GKN and, with the overall GKN margin increasing positively, we are excited about what is possible."

The Aerospace arm was accelerating in the first half, with organic revenue growth of 7%, which offset headwinds affecting the automotive sector and thus also dragging the group's Driveline business's revenue down 7%.

Regulatory pressures could dent Direct Line

Direct Line Insurance Group PLC (LON:DLG) delayed its third-quarter update by a week and a bit, so that it will now come on Wednesday, a day ahead of its capital markets day.

The company's shares have been amongst the worst performing in the sector so far this year, with a total return of -6%, under pressure from competitive pricing backdrop in UK motor insurance and regulatory pressure on home and motor insurance pricing.

Prospects for consumer-facing insurers have been overshadowed by fears that the UK industry is facing new regulations on renewal hikes.

This follows a report from the Financial Conduct Authority, issued last month, where the watchdog proposed a suite of remedies to remedy the problem including a ban on raising prices for consumers who renew year on year and restrictions on automatic renewal.

Insurers will also have to publish information about price differentials between customers.

For Direct Line, investors will be hoping the red phone can turn itself around in the second half after its interim results in July showed a 10.8% drop in profits to £261.3m alongside a 2.2% fall in gross premiums to £1.57bn.

Shareholders may also be awaiting an update on the group's transformation of its IT systems to make it more competitive in the crowded insurance market, as well as any updates from new finance boss, Tim Harris, who joined the company at the start of October.

#### William Hill bets on US

William Hill PLC (LON:WMH) will issue a trading statement on Thursday, with analysts waiting to hear on its progress in the US, where the bookie said at the half-year stage it had gained a 27% market share in the seven states it operated in, which is now up to ten states.

On this side of the Atlantic trading will not be as rosy, after the board announce the closure of 700 UK shops following the imposition of a £2 staking limit on high street gaming machines.

However, analysts believe the new cap may not have been as damaging as initially thought, while the shop closures could protect profits despite denting revenues.

#### Severn Trent, United Utilities set to go with the flow

Utilities will be under the spotlight in the middle of the week, with half-year results due from United Utilities PLC (LON:UU.) on Wednesday, followed by Severn Trent PLC's (LON:SVT) interims a day later.

The stocks tend to be investor favourites because of their unusually high dividends, and share prices have been on the rise lately as fears of re-nationalisation under a Labour government have diminished.

Nevertheless, as the time nears for water regulator Ofwat's latest final price determination on 16 December, with the plans to require stricter "financial resilience" at water firms, including restricting dividend payments, the companies will be under scrutiny to prove their worth.

In a recent note, analysts at Deutsche Bank said this, added to the upcoming general election, will "likely overshadow" the two firm's financial results.

It backed United Utilities to steal the show though, forecasting a 5% increase in operating profit to £387mIn, compared to a "single-digit earnings drop" expected at Severn Trent.

The Deutsche analysts also expect Severn's revenues to be down mostly because of broadly flat water profits, due to weather effects and property gains not matching the year before.

#### Warship updates eyed from Babcock

Defence firm Babcock International Group PLC (LON:BAB) reiterated its full-year guidance in a trading update in September, so the firm's interims on Wednesday are unlikely to contain any surprises in the figures.

However, investors will be watching for any updates on the group's warship contract for the Ministry of Defence, where it was selected as the preferred bidder to deliver five frigates in a deal valued at around £1.25bn.

There may also be some news on whether the company is aiming to address the weakness in its civil nuclear business following the transfer of the Magnox decommissioning contract to the UK's Nuclear Decommissioning Authority in August.

#### Sage investors brace for margin squeeze

Full-year results from software giant Sage Group PLC (LON:SGE) on Thursday are unlikely to be greeted with much of a fanfare after a warning in July that operating margins will be "at the lower end" of the 23%-25% range previously set out.

Investors will also be bracing for a sharp drop in revenues at Sage's software and software-related services (SSRS) business, which is expected to see sales fall by over 15%.

The one saving grace is the group's recurring revenues, which are forecast to "slightly exceed" its guidance range of

between 8%-9%, which could provide some respite from negativity elsewhere.

Significant events week ending November 22: Monday 18 November

**Finals:** Diploma (LON:DPLM)

**Interims:** Chamberlin & Hill (LON:CMH), McKay Securities (LON:MCKS)

**Trading statements:** DWF Group (LON:DWF)

**Economic announcements:** ECB Financial Stability Review, US house building confidence

Tuesday 19 November

**Finals:** easyJet PLC (LON:EZJ)

**Interims:** AO World PLC (LON:AO.), Big Yellow Group PLC (LON:BYG), CML Microsystems Plc (LON:CML), Halma PLC (LON:HLMA), Homeserve PLC (LON:HSV), Palace Capital (LON:PCA), Scapa Group PLC (LON:SCPA), SRT Marine Systems PLC (LON:SRT), Telecom Plus PLC (LON:TEP), Trifast PLC (LON:TRI)

**Trading statements:** Melrose Industries PLC (LON:MRO), Equiniti Group PLC (LON:EQN), Keller Group PLC (LON:KLR), Polypipe Group PLC (LON:PLP)

**Economic announcements:** CBI Industrial Trends Surveys, ITV party leaders debate, US housing data

Wednesday 20 November

**Trading statements:** Kingfisher plc (LON:KGF), Direct Line Insurance Group PLC (LON:DLG), Inmarsat Plc (LON:ISAT), Breedon Group PLC (LON:BREE)

**Finals:** The Sage Group plc (LON:SGE), Mitchells & Butlers PLC (LON:MAB), SSP Group plc (LON:SSPG)

**Interims:** Babcock International Group PLC (LON:BAB), United Utilities Group PLC (LON:UU.), Creightons PLC (LON:CRL), Intermediate Capital Group PLC (LON:ICP), Liontrust Asset Management PLC (LON:LIO), U and I Group PLC (LON:UAI), Alpha Financial Markets Consulting PLC (LON:AFM), Argentex Group PLC (LON:AGFX),

**AGMs:** Rainbow Rare Earths Ltd (LON:RBW)

**Economic announcements:** US oil inventories, US MBA mortgage applications

Thursday 21 November

**Interims:** Royal Mail Group PLC (LON:RMG), Severn Trent PLC (LON:SVT), Charles Stanley Group PLC (LON:CAY), CMC Markets Plc (LON:CMCX), Countryside Properties PLC (LON:CSP), First Property Group PLC (LON:FPO), Helical PLC (LON:HLCL), iEnergizer Ltd (LON:IBPO), JLEN Environmental Assets Group Ltd (LON:JLEN), Manolete Partners PLC (LON:MANO), Mitie Group PLC (LON:MTO), NewRiver REIT plc (LON:NRR), Syncona (SYNC)

**Finals:** Euromoney Institutional Investor PLC (LON:ERM), Residential Secure Income PLC (LON:RESI)

**Trading statements:** William Hill PLC (LON:WMH), Centrica PLC (LON:CNA), Close Brothers Group PLC (LON:CBG), Hill & Smith Holdings PLC (LON:HILS), TT Electronics plc (LON:TTG)

**AGMs:** Avation (LON:AVAP)

**FTSE 100 ex-divs:** Carnival PLC (LON:CCL), DCC PLC (LON:DCC), Imperial Brands PLC (LON:IMB), Scottish Mortgage Investment Trust PLC (LON:SMT)

**Economic announcements:** UK public sector borrowing, US existing homes sales data, US jobless

Friday 22 November

**Trading statements:** Coats Group PLC (LON:COA)

**AGMs:** Eqtec PLC (LON:EQT)

**Economic announcements:** UK CBI Distributive Trades, UK 'flash' PMIs, BBC party leaders debate, US Michigan confidence index

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