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ATLANTIC CAPITAL MARKETS



3 Summer Sizzlers

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Introduction

Whilst the adage may say go away and buy back on St Ledgers day, the market can present some great opportunities during the summer months. In this report we highlight 3 heavyweight FTSE100 stocks that have been looking keen over the last few months and could well offer investors a great buying opportunity at current levels.

Ashtead Group

Ashtead is an international equipment rental company with national networks in the US, UK and Canada, trading under the name Sunbelt Rentals. The group rent a full range of construction and industrial equipment across a wide variety of applications to a diverse customer base. Ashtead was originally founded in 1947, in the village of Ashtead, Surrey, as Ashtead Plant and Tool Hire. In 1986, it was first listed on the London Stock Exchange.

Operations

The company operates broadly across the UK as well as Canada and the United States. Approximately 85% of its revenue is generated in the United States through the subsidiary Sunbelt Rentals and the firm have large exposure across the Atlantic being present in six hundred locations across the United States and Canada.

UK Operations

Sunbelt Rentals, formerly known as A-Plant, is present in over 185 locations throughout the United Kingdom, and has the following divisions:

- A-Plant, Plant
- A-Plant, Accommodation
- Astra Site Services, Excavator Attachments
- Brightlights
- FLG Services, Lifting and Handling Specialists
- Hoist-It LTD
- GB Access
- Hewden Industrial, equipment hire to the petrochemical industry
- Leada Acrow
- Live Trakway
- Mather+Stuart Power Solutions
- PSS Hire
- Rapid Climate Control
- Tool Hire Express
- A-Plant, Powered Access
- A-Plant Customer Training Solutions
- A-Plant, Rail
- A-Plant, Lux Traffic Systems
- Opti-cal Survey Equipment (Survey Hire Express)

Sunbelt US/Canada

Sunbelt is the stateside based construction and industrial equipment rental division of Ashtead with over 850 stores across the US and Canada. Sunbelt's principal market is the US non-residential construction market, but it does also rent a full range of construction and industrial equipment to the residential market as well. Sunbelt has a huge spread of equipment and a network spanning right across the US, including Washington DC, Baltimore, Miami, Tampa, Orlando, Los Angeles and Seattle. Sunbelt US aims to offer its customers a complete, one-stop shop service for all their rental requirements from industrial cleaning up machinery used after a major disaster such as a flood, temperature control or even providing accommodation units and power for sporting events.

Sunbelt Rentals also entered the Canadian market in 2014 and now has 77 stores across Canada in Alberta, British Columbia, Ontario, Manitoba and Saskatchewan. Sunbelt Canada largely follows the same winning formula and rents a broad range of construction equipment, with Western Canada seeing more customer demand for aerial work platforms ('AWP') especially through work servicing the Vancouver film and TV industry. In contrast, in Eastern Canada it's more of a fleet mix which is more evenly balanced across general equipment rental and AWP.

Company Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization 25.229B	Quick Ratio (MRQ) 1.0770	Basic EPS (FY) 1.5570
Enterprise Value (MRQ) 25.087B	Current Ratio (MRQ) 1.1745	Basic EPS (TTM) 1.5571
Enterprise Value/EBITDA (TTM) 10.9006	Debt to Equity Ratio (MRQ) 1.2877	EPS Diluted (FY) 1.5522
Total Shares Outstanding (MRQ) 446.553M	Net Debt (MRQ) 4.19B	Net Income (FY) 697.4M
Number of Employees 18.826K	Total Debt (MRQ) 4.209B	EBITDA (TTM) 2.301B
Number of Shareholders—	Total Assets (MRQ) 9.273B	Gross Profit (MRQ) 277.6M
Price to Earnings Ratio (TTM) 36.3882	Price History	Gross Profit (FY) 1.187B
Price to Revenue Ratio (TTM) 5.0457	Average Volume (10 day) 566457.4000	Last Year Revenue (FY) 5.031B
Price to Book (FY) 7.7430	1-Year Beta 1.1341	Total Revenue (FY) 5.031B
Price to Sales (FY) 5.0457	52 Week High 5.762K	Free Cash Flow (TTM) 1.368B
Operating Metrics	52 Week Low 2.435K	Margins
Return on Assets (TTM) 0.0704	Dividends	Net Margin (TTM) 0.1386
Return on Equity (TTM) 0.2235	Dividends Paid (FY) -182.1M	Gross Margin (TTM) 0.2359
Return on Invested Capital (TTM) 0.0881	Dividends Yield (FY) 0.7460	Operating Margin (TTM) 0.2257
Revenue per Employee (TTM) 267242.1120	Dividends per Share (FY) 0.4215	Pretax Margin (TTM) 0.1860

Conclusion

Despite Ashtead being based in the UK, it carries out most of its business in the US. This really does put it in a prime position to benefit from President Joe Biden's massive infrastructure renewal. The US government plans to invest more than a trillion dollars in projects over the next decade and Ashtead, trading under the name Sunbelt Rentals, is America's second-biggest rentals firm. The reason this could well be a huge benefit for Ashtead is much of the heavy plant machinery needed by the industry is simply too expensive for construction firms to buy. They just can't afford to tie up big capital in equipment that's not getting daily use. This is where the rental firms come in.

Overall, anyone holding the shares over the last year must be pleased with the performance, especially against the pandemic backdrop. The company is reinvesting heavily into its business, and at a high rate of return leading to an impressive earnings growth, the sustainability of the growth really is the only factor to be wary of but as the US moves into recovery mode and president Joe Biden's promises to 'build back better', Ashtead Group as well as its peers are well-placed to benefit from a potential surge in US construction activity.

The key risk for share holders does come from the cyclical nature of the business, if construction spending does slow down then companies like Ashtead could see pressure as the very expensive equipment, they need to rent to turn a profit could sit idle. However, analysts do think we are at the start of a bullish spell for global infrastructure development. And this period could last as long as the next 10 years.

Flutter Entertainment plc

History

Flutter is an Irish bookmaking holding company created by the merger of Paddy Power and Betfair. Since the initial merger the group now operates under various brands including Paddy Power, PokerStars, Sky Bet, Sportsbet.com.au, Timeform, TVG Network, Adjarabet, BetEasy, Betfair, FanDuel, Fox Bet, Full Tilt Poker. Flutter came about when Paddy Power and British rival Betfair agreed terms for a merger on 8 September 2015. The business is owned 52% by the former Paddy Power shareholders and 48% by the former Betfair shareholders. The merger was completed on 2 February 2016.

From here the group then went on to make several acquisitions.

May 2018, Paddy Power Betfair announced its intentions to acquire FanDuel, one of the leading daily fantasy sports operators in the US. The deal was part of an effort to increase the company's exposure in the United States following the overturning of a federal prohibition on sports betting. As part of the acquisition, the company merged its existing US operations into FanDuel to form FanDuel Group.

February 2019 saw the company announce the acquisition of a 51% controlling stake in adjarabet, a business operating in the Georgian gambling industry.

March 2019, Paddy Power Betfair then announced that it would rebrand as Flutter Entertainment, Flutter was originally the name of a betting exchange acquired by Betfair in December 2001.

October 2019, Flutter Entertainment announced its acquisition of Canadian gaming operator The Stars Group for US\$6.95 billion, creating the world's largest online gambling company based on revenues.

Operations

The new business maintains separate brands in the United Kingdom, Ireland and Italy. It operates across four main divisions; Online, Retail, Australia and the United States. The online division comprises Paddy Power and Betfair in the UK and Ireland. Betfair also operates an online betting exchange.

The retail division operates over six hundred betting shops in the UK and Ireland. In Australia, they own Sportsbet. The division in the United States includes FanDuel, Fox Bet (a partnership with Fox Corporation and its Fox Sports Media Group) and the TVG Network, which is a horse racing television channel and pari mutuel online betting network, which is active in thirty-five states. In New Jersey, the company has an online casino and a horse racing betting exchange.

Company Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization 22.565B	Quick Ratio (MRQ)—	Basic EPS (FY) 0.2925
Enterprise Value (MRQ)—	Current Ratio (MRQ) 0.7373	Basic EPS (TTM) 0.2925
Enterprise Value/EBITDA (TTM) 25.4875	Debt to Equity Ratio (MRQ) 0.3009	EPS Diluted (FY) 0.2853
Total Shares Outstanding (MRQ) 175.264M	Net Debt (MRQ) 2.034B	Net Income (FY) 37.9M
Number of Employees 14.802K	Total Debt (MRQ) 3.308B	EBITDA (TTM) 900.4M
Number of Shareholders—	Total Assets (MRQ) 16.992B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM) 451.2794	Price History	Gross Profit (FY) 2.227B
Price to Revenue Ratio (TTM) 5.3122	Average Volume (10 day) 221577.9000	Last Year Revenue (FY) 4.414B
Price to Book (FY) 2.0548	1-Year Beta 0.6240	Total Revenue (FY) 4.414B
Price to Sales (FY) 3.8751	52 Week High 17.13K	Free Cash Flow (TTM) 826.3M
Operating Metrics	52 Week Low 10.946K	Margins
Return on Assets (TTM) 0.0034	Dividends	Net Margin (TTM) 0.0086
Return on Equity (TTM) 0.0051	Dividends Paid (FY) 0	Gross Margin (TTM) 0.5045
Return on Invested Capital (TTM) 0.0041	Dividends Yield (FY) 0	Operating Margin (TTM) 0.0577
Revenue per Employee (TTM) 298196.1897	Dividends per Share (FY) 0	Pretax Margin (TTM) 0.0002

Conclusion

Gambling stocks are not for everyone and as well as the potential on the upside they are also not without risks, most notable regulatory changes or announcements, that all being said it is a sector seeing wide consolidation and mergers which does add to the appeal.

Flutter have had their fair share of drama this year, which has left the shares trading below fair value and close to 12-month lows appealing to the bargain hunter and those with a long-term view.

There was the surprise departure of FanDuel's CEO. The announcement that Fox had filed an arbitration claim against Flutter over the price at which it can exercise options to acquire 18.6% of FanDuel. There was also the appeal court in Kentucky, which decided that Flutter owes \$870.0m plus accrued interest. The biggest hit this year came from Fox, which argued that it should pay the price which Flutter paid Fastball for its 37% stake in FanDuel last December.

That all being said Deutsche Bank upgraded Flutter Entertainment to 'buy' from 'hold' recently as it argued the shares look cheap following a period of "material" underperformance. The bank noted that Flutter shares are down 11% year-to-date against a sector that is up 33%.

A recent trading update has also confirmed its momentum continues as player numbers are increasing as well as year-on-year revenues. In addition to this, it is experiencing growth in previously untapped markets such as the US.

BHP GROUP

History

BHP as it is now known was originally founded in 1885 in the small mining town of Broken Hill in New South Wales. By 2017 BHP ranked as the world's largest mining company, based on market capitalisation, and as Melbourne's third-largest company by revenue. BHP in its current form emerged in 2001 through the merger of the Australian Broken Hill Proprietary Company Limited (BHP) and the Anglo-Dutch Billiton plc, this led to the formation of BHP Billiton. The Australia-registered arm of the business has a primary listing on the Australian Securities Exchange and is one of the largest companies in Australia by market capitalisation. The English-registered plc arm has a primary listing on the London Stock Exchange.

In 2015, some BHP Billiton assets were then demerged and rebranded as South32, while a scaled-down BHP Billiton became BHP and, in 2018, BHP Billiton Limited and BHP Billiton Plc became BHP Group Limited and BHP Group Plc, respectively.

BHP is the world's largest diversified mining group. It produces iron ore, coal and copper. These are three industrial resources which are seeing rising demand due to economic growth. BHP, formerly known as BHP Billiton, is the trading entity of BHP Group Limited and BHP Group plc, an Anglo-Australian multinational mining, metals and petroleum dual-listed public company headquartered in Melbourne, Victoria, Australia.

The firm have over 72,000 employees and contractors, globally with primary operations in Australia and the Americas. Global headquarters are in Melbourne, Australia.

Operations and Commodities

BHP has mining operations in Australia, North America, and South America, and petroleum operations in the US, Australia, Trinidad and Tobago, the UK, and Algeria. The company has four primary operational units, with a developmental potash project underway as well.

The main commodities include Copper, Iron ore, Nickel, Coal and Petroleum.

Company Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization 128.514B	Quick Ratio (MRQ)—	Basic EPS (FY) 1.2496
Enterprise Value (MRQ)—	Current Ratio (MRQ) 1.4228	Basic EPS (TTM) 1.0719
Enterprise Value/EBITDA (TTM) 5.6244	Debt to Equity Ratio (MRQ) 0.4253	EPS Diluted (FY) 1.2466
Total Shares Outstanding (MRQ) 5.058B	Net Debt (MRQ) 9.815B	Net Income (FY) 6.319B
Number of Employees—	Total Debt (MRQ) 16.62B	EBITDA (TTM) 17.981B
Number of Shareholders 560.472K	Total Assets (MRQ) 75.521B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM) 21.1127	Price History	Gross Profit (FY) 16.225B
Price to Revenue Ratio (TTM) 3.1773	Average Volume (10 day) 3.635M	Last Year Revenue (FY) 34.098B
Price to Book (FY) 2.9437	1-Year Beta 1.4929	Total Revenue (FY) 34.098B
Price to Sales (FY) 3.3567	52 Week High 2418.5000	Free Cash Flow (TTM) 8.409B
Operating Metrics	52 Week Low 1.45K	Margins
Return on Assets (TTM) 0.0710	Dividends	Net Margin (TTM) 0.1505
Return on Equity (TTM) 0.1503	Dividends Paid (FY)- 5.461B	Gross Margin (TTM) 0.3627
Return on Invested Capital (TTM) 0.1051	Dividends Yield (FY) 5.0972	Operating Margin (TTM) 0.3627
Revenue per Employee (TTM)—	Dividends per Share (FY) 0.9310	Pretax Margin (TTM) 0.3115

Conclusion

BHP Group are a powerhouse in the sector, the group recently reported production records at its Western Australia Iron Ore operations and the Goonyella Riverside metallurgical coal mine in Queensland. In an operational update for the year to end June, the miner also announced that Olympic Dam achieved the highest annual copper production since the acquisition by BHP in 2005 and the highest gold production ever for the operation. BHP Group have also entered a deal to supply Tesla with nickel for EV batteries, the nickel will be sourced from the Nickel West mine in Western Australia.

“We set several production records and brought on four major projects safely, on schedule and on budget,” said chief executive Mike Henry. Who also added “BHP is in great shape Our operations are performing well, we continue our track record of disciplined capital allocation, and our portfolio is positively leveraged to the megatrends of decarbonisation, electrification and population growth.”

If only it was all so clear sailing, as with all mining operations there is some environmental impact and whilst BHP group will take all measures to reduce it there are undoubtedly some skeletons in the closet, London's Court of Appeal recently agreed to reopen a major lawsuit against BHP reviving a \$7 billion claim over a 2015 dam rupture that triggered Brazil's worst environmental disaster.

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