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ATLANTIC CAPITAL MARKETS

St Leger's Day Bargains

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The old saying goes, sell in May and buy back on St Leger's day. Now whilst this old saying harks back to a near bygone era when brokers would generally take the summer off, these days it's not quite so simple as markets are a 24 hour and 12month a year business. The UK markets are trading steady after last year's pandemic sell off however there are still some share prices offering investors heavily discounted entries compared to pre pandemic levels. In this report we highlight a group of stocks from varying sectors that we feel offers investors great entry levels after a despondent summers trading.

Smith & Nephew

Smith & Nephew plc is a British multinational medical equipment manufacturing company headquartered in Watford. It is an international producer of advanced wound management products, arthroscopy products, trauma and clinical therapy products, and orthopaedic reconstruction products. Its products are sold in over 100 countries. The business has suffered over the last 12 months due to drops in demand for their medical products as hospitals across the globe have focused in on Covid care.
Smith & Nephew operates in three market segments through separate global business units under the Smith & Nephew brand name.

- Advanced wound management: advanced treatments for difficult wounds.
- Endoscopy: products for minimally invasive surgery, based in Andover, Massachusetts, USA.
- Orthopaedics: hip and knee implants and trauma products, based in Memphis, Tennessee, USA.

Chart

Fundamentals

Valuation	**Balance Sheet**	**Income Statement**
Market Capitalization12.354B	Quick Ratio (MRQ)—	Basic EPS (FY)0.3993
Enterprise Value (MRQ)—	Current Ratio (MRQ)2.0953	Basic EPS (TTM)0.4728
Enterprise Value/EBITDA (TTM)17.0358	Debt to Equity Ratio (MRQ)0.6689	EPS Diluted (FY)0.3984
Total Shares Outstanding (MRQ)878.006M	Net Debt (MRQ)1.577B	Net Income (FY)349.357M
Number of Employees17.914K	Total Debt (MRQ)2.581B	EBITDA (TTM)989.627M
Number of Shareholders14.301K	Total Assets (MRQ)7.914B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM)29.8283	**Operating Metrics**	Gross Profit (FY)2.301B
Price to Revenue Ratio (TTM)3.2532	Return on Assets (TTM)0.0530	Last Year Revenue (FY)3.556B
Price to Book (FY)3.1908	Return on Equity (TTM)0.1052	Total Revenue (FY)3.556B
Price to Sales (FY)3.4701	Return on Invested Capital (TTM)0.0691	Free Cash Flow (TTM)610.091M
	Revenue per Employee (TTM)198501.6550	

Synopsis

The business has had a tough year as Covid-19 took hold last year. This translated to hospitals around the world redirecting resources to the front line of the pandemic and postponing non-essential procedures. With the easing of virus restrictions this has enabled certain elective surgeries to begin to return. This was reflected in Second-quarter figures recently reported showing revenues jumped to £1.3bn. The firm also noted that a strong performance in orthopaedics (up 43.3% underlying) and its other two franchises reflected not only the softening of Covid rules but also “decisions… to maintain investment in our sales force, new product development and launches”.

Wood Group

John Wood Group plc, commonly known as Wood is a British multinational engineering and consulting business with headquarters in Aberdeen, Scotland. The business was founded by Sir Ian Wood in 1982, when it split away from JW Holdings, the largest fishing company in Scotland. JW Holdings had diversified into the energy services business at the outset of the North Sea oil industry in the early 1970s. The company acquired Mustang Engineering Inc, an engineering business based in Houston, Texas in September 2000. In 2002 the company was listed on the London Stock Exchange. In March 2017, the company announced it would acquire its rival, Amec Foster Wheeler, in an all stock deal, valued at approximately £2.2 billion. In 2020 the nuclear business, mostly involved in the decommissioning work at Sellafield, was sold for £250 million to the US Jacobs Engineering Group which has a global nuclear business.

Operations

Wood Group cover various sectors including, Maintenance, Modifications, Brownfield engineering, Asset operations. They also work on optimization and management across several sectors such as Conventional Energy, Process & Chemicals and Renewable Energy & Power. Not only do they work in these areas but also deliver a wide range of services such as Project Management, Engineering, Construction & Project Delivery, Engineering Procurement & Construction Management.

The firm also has a consultancy side which is a global multi-sector specialist consultancy. A trusted partner to a wide range of clients across all of energy and the built environment. The consultancy side also covers a wide range of sectors including Renewable Energy, Upstream Oil & Gas, Midstream Oil & Gas, Downstream Oil & Gas, Chemicals, Power, Mining, Industrials & Manufacturing, Life Sciences, Transportation, Water and Government services.

Chart

Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization1.573B	Quick Ratio (MRQ)—	Basic EPS (FY)-0.2661
Enterprise Value (MRQ)—	Current Ratio (MRQ)0.8381	Basic EPS (TTM)-0.2620
Enterprise Value/EBITDA (TTM)7.1012	Debt to Equity Ratio (MRQ)0.5160	EPS Diluted (FY)-0.2661
Total Shares Outstanding (MRQ)673.332M	Net Debt (MRQ)1.138B	Net Income (FY)-178.968M
Number of Employees39.3K	Total Debt (MRQ)1.575B	EBITDA (TTM)451.005M
Number of Shareholders—	Total Assets (MRQ)7.186B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM)—	**Operating Metrics**	Gross Profit (FY)391.623M
Price to Revenue Ratio (TTM)0.2659	Return on Assets (TTM)-0.0213	Last Year Revenue (FY)5.899B
Price to Book (FY)0.5156	Return on Equity (TTM)-0.0550	Total Revenue (FY)5.899B
Price to Sales (FY)0.2663	Return on Invested Capital (TTM)-0.0385	Free Cash Flow (TTM)157.075M
	Revenue per Employee (TTM)150095.6319	

Synopsis

The shares have been under fire considerably over the last year especially as the pandemic hit the oil price and sector hard. That all being said, the oil majors are now recovering yet the oil servicing stocks are still lagging. We have already seen the likes of Royal Dutch Shell and BP increasing dividends and starting to fight back. Whilst this recovery hasn't translated For Wood Group just yet and recent figures highlighted that revenue fell almost a quarter in the first half of 2021 the outlook from here does look better.

The fall in turnover did detract from the fact the firm saw an upturn in activity in the second quarter thanks to growth in consulting and operations, along with an improvement in operating margins. Also, the firm took in $3.2bn of new orders during the first half, taking its total order book to $7.7 bn, up 18% from the start of the year.

There is also expectation in the market that Wood group could be a major beneficiary of the US $1tn infrastructure plan. So, whilst they may be lagging the majors the outlook is more appealing from here.

Flutter

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.

Chart

Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization23.743B	Quick Ratio (MRQ)—	Basic EPS (FY)0.2925
Enterprise Value (MRQ)—	Current Ratio (MRQ)0.8336	Basic EPS (TTM)-0.3925
Enterprise Value/EBITDA (TTM)25.4875	Debt to Equity Ratio (MRQ)0.3048	EPS Diluted (FY)0.2853
Total Shares Outstanding (MRQ)175.271M	Net Debt (MRQ)2.012B	Net Income (FY)37.9M
Number of Employees14.802K	Total Debt (MRQ)3.268B	EBITDA (TTM)1.133B
Number of Shareholders—	Total Assets (MRQ)16.636B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM)—	**Operating Metrics**	Gross Profit (FY)2.227B
Price to Revenue Ratio (TTM)4.0634	Return on Assets (TTM)-0.0041	Last Year Revenue (FY)4.414B
Price to Book (FY)2.1865	Return on Equity (TTM)-0.0063	Total Revenue (FY)4.414B
Price to Sales (FY)4.1234	Return on Invested Capital (TTM)-0.0048	Free Cash Flow (TTM)897.3M
	Revenue per Employee (TTM)298196.1897	

Synopsis

Recent figures turned out to be very impressive as we see the return of normal sports events. The return of a more normalised sporting calendar was a major contributor towards the reported first half revenue of £3.1bn, up 30% year-on-year. Customer volumes were similarly higher, with average monthly players up 40% over the six months compared to last year. "The first half of 2021 exceeded our expectations,” said chief executive Peter Jackson. “Our global sports businesses benefitted from further enhancements to our products and the return to more normalised sporting calendars while we sustained our strong performance in gaming despite the challenging comparatives set last year.”

But its not just the figures that appeal, it is a sector in huge consolidation, with MGM circling the sector. Granted a bid approach for flutter could be tricky with a market cap of $32.8bn but that being said the fact they own 95% of Fandual (FanDuel is the largest online sportsbook operator in the US with Flutter recently saying it has a 45 percent share in the world’s fastest-growing sports wagering market.) would certainly make it an appealing proposition.

Reckitt Benckiser

Reckitt Benckiser Group Plc engages in the manufacture and trade of health, hygiene and home products. It operates through Health and Hygiene Home segments. The Health segment focuses on infant and child nutrition; health relief; health hygiene; and vitamins, minerals and supplements. The Hygiene Home segment focuses on the household sector. The company was founded in December 1999 and is headquartered in Slough, the United Kingdom.

Brands:-

Clearasil, Enfa, Finish, Lysol, Veet, Dettol, Air Wick, Durex, Calgon, Mortein, Cillit Bang, Nurofen, Nutramigen, Strepsils, Woolite, Vanish, Harpic, Airborne and Move Free.

Chart

Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization39.853B	Quick Ratio (MRQ)—	Basic EPS (FY)1.6697
Enterprise Value (MRQ)—	Current Ratio (MRQ)0.5240	Basic EPS (TTM)-2.2598
Enterprise Value/EBITDA (TTM)15.0564	Debt to Equity Ratio (MRQ)1.6112	EPS Diluted (FY)1.6630
Total Shares Outstanding (MRQ)714.216M	Net Debt (MRQ)9.125B	Net Income (FY)1.187B
Number of Employees39.553K	Total Debt (MRQ)10.603B	EBITDA (TTM)3.23B
Number of Shareholders16.783K	Total Assets (MRQ)27.725B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM)—	**Operating Metrics**	Gross Profit (FY)8.355B
Price to Revenue Ratio (TTM)2.9111	Return on Assets (TTM)-0.0529	Last Year Revenue (FY)13.993B
Price to Book (FY)4.3632	Return on Equity (TTM)-0.1990	Total Revenue (FY)13.993B
Price to Sales (FY)2.8462	Return on Invested Capital (TTM)-0.0946	Free Cash Flow (TTM)1.758B
	Revenue per Employee (TTM)353778.4745	

Synopsis

Reckitt’s share price has been squeezed hard in recent trading, especially after the recent figures highlighted the concern surrounding their bottom line. Adjusted operating profit in the first half fell 16% (9.6% fall at constant currencies) to £1.4bn, while on a statutory basis it made a first-half loss of £1.9bn, driven by a near-£3bn charge from its agreement to sell its infant nutrition business in China and a £165m loss on the sale of its Scholl business. The major contributing factor to the negative figures was the inflationary pressures and despite the assumption that big consumer goods companies with such strong brands can easily pass on any extra costs to the customer in the form of higher prices this in reality hasn’t transpired as of yet. So whilst recent news flow hasn’t been entirely positive it is also reflected in the current price.

The company’s infant nutrition business has continued to worry analysts. Seen by most as a big mistake but one they are at least trying to rectify. Reckitt added a lot of debt to its balance sheet to buy Mead Johnson four years ago and the business has been a constant source of problems ever since. Whilst the issues are very much prominent at the moment, a lot of the problems can be overcome and whilst inflation has squeezed, they can take steps to offset. The infant formula acquisition was a costly mistake, but at least Reckitt is taking steps to fix that. Meanwhile, the Reckitt share price fall means that the current dividend yield is 3.1%.

Mediclinic

Mediclinic International was founded in 1983 in Stellenbosch, and is an international private hospital group with operations in South Africa, Namibia, Switzerland and the United Arab Emirates. The Group's head office is based in Stellenbosch, South Africa. Mediclinic acquired Hirslanden, the largest private hospital group in Switzerland, for SF2.54bn in 2007. In June 2015, Mediclinic then acquired a 29.9% interest in Spire Healthcare, a UK-based private healthcare group. Mediclinic announced a reverse merger of Al Noor Hospitals in October 2015. The former Mediclinic shareholders owned up to 93% of the combined business on completion. The merger was completed on 15 February 2016.The healthcare group officially started trading on the London Stock Exchange on 16 February 2016.

Operations

Mediclinic operate in three key regions:- Switzerland, Southern Africa and the Middle East. Operations comprise of 74 hospitals, 5 subacute hospitals, 2 mental health facilities, 18 day-case clinics and 20 outpatient clinics.

- Hirslanden in Switzerland operates 17 hospitals and 4 day case clinics in Switzerland with more than 1900 inpatient beds.
- Mediclinic Southern Africa operations included 50 hospitals (three of which in Namibia), 5 subacute hospitals, 2 mental health facilities and 12 day case clinics across South Africa, and around 8 600 inpatient beds;
- Mediclinic Middle East operates 7 hospitals, 2 day case clinics and 20 outpatient clinics with more than 950 inpatient beds in the UAE. In addition, under a management contracts Mediclinic Middle East operates one hospital in Abu Dhabi and will open a 200-bed hospital in the Kingdom of Saudi Arabia in mid-2022.

Chart

Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization2.17B	Quick Ratio (MRQ)—	Basic EPS (FY)0.0922
Enterprise Value (MRQ)—	Current Ratio (MRQ)1.8012	Basic EPS (TTM)0.0922
Enterprise Value/EBITDA (TTM)10.7176	Debt to Equity Ratio (MRQ)0.8268	EPS Diluted (FY)0.0922
Total Shares Outstanding (MRQ)737.11M	Net Debt (MRQ)2.157B	Net Income (FY)68M
Number of Employees33.606K	Total Debt (MRQ)2.453B	EBITDA (TTM)415M
Number of Shareholders25.215K	Total Assets (MRQ)6.672B	Gross Profit (MRQ)—
Price to Earnings Ratio (TTM)31.9306	**Operating Metrics**	Gross Profit (FY)192M
Price to Revenue Ratio (TTM)0.7247	Return on Assets (TTM)0.0100	Last Year Revenue (FY)2.995B
Price to Book (FY)0.7618	Return on Equity (TTM)0.0237	Total Revenue (FY)2.995B
Price to Sales (FY)0.7247	Return on Invested Capital (TTM)0.0130	Free Cash Flow (TTM)127M
	Revenue per Employee (TTM)89120.9903	

Synopsis

With the ongoing pandemic, varied pace of vaccine rollouts and planning assumptions of further waves and variants are causing continued uncertainty on the recovery for the Mediclinic share price, this is holding them back and offering a good entry for the longer term. However, in line with the outlook statement provided as part of the 2021 financial year results and given the group's focus on operational and cost efficiencies, it did not anticipate any long-term structural impediments in returning Ebitda margins. Whilst the short term may well still offer a degree of uncertainty this is also what offers the attractive entry level.

Goldman Sachs have also added to this conviction highlighting they are the "cheapest stock" in its healthcare coverage and that the under performance provides an attractive entry point and highlights the improvements in free cash flow will help to drive the reinstatement of dividends.