

When Will They Crack?

By John Lander

There have been previous articles (No. 14, p22; & No. 15, p15) about the companies who have increased their earnings per share consistently for ten years or while failing to do so in just one year have made it up in the following year.

The question has been what are the qualities or situations that enable them to achieve this? It was Warren Buffett, I think, who recommended considering companies that could be run by monkeys, because sooner or later that might happen!

Of the companies listed in the SIGNet Newsletter 14, page 23, as having an increase in earnings per share for the last ten years, the following have kept their 10 years out of 10 position -

Alliance Unichem, Associated British Ports, Barratt, Berkeley, Bunzl, Capita, Cattles, Enterprise Inns, Forth Ports, Gregg, Homeserve (previously South Staffordshire), Johnson Matthey, Johnson Press, MITIE, Morrison Wm., Provident Financial, RPS. (16)

The following have dropped out:-

Amersham on being taken over, Boot (Henry) on restructuring and Torex on amalgamation with iSOFT (3)

Moving up from 9 out of 10 by replacing a historic negative year:-

Aggregate Industries, Cobham, Taylor Nelson Sofres, Tesco (4)

Qualifiers since identified:-

Bovis Homes, London Scottish Bank, Travis Perkins, Watermark & Westbury (5)

At the “market bottom” of 12 March 2003 their average increase since December 1999 was 20% with 7 out of the 25 having a decrease. The FTSE100 had fallen 48% and the SIGnetSAI by 36%

Do their directors extrapolate future transnational trends successfully or is this unnecessary in their situations? Are these companies just in the right position to only require short-term management? For how long?

The chart below shows that since December 1999 the share prices of these 25 companies have increased on average by 69% (top line) while the FTSE 100 (rebased) has fallen 34% (bottom line) and the SIGnetSAI by 4% (middle line). Only 4 out of 25 fell in value.

