



Drip-feeding profit dreams

The market's bounce-back has pushed shares such as Delta to the point where speculation, rather than real value, is starting to drive the price. Should Richard Beddard take the plunge?

What a difference a month or so makes. I took a long break this summer, and, when I returned, the stock-market was a different place. The FTSE All-Share had risen from 2,100 in early July to 2,500 in late August.

To take the temperature of the market, I compare the prices of all UK-listed companies to their profits averaged over the last nine years. The higher the result, the more expensive the shares are, relative to their earning power. On this occasion, in value terms, the long-term price/earnings (p/e) ratio had taken a step up from 11 to 12. It might not seem much, but every step takes us further away from last March, when the p/e ratio was eight and shares were unequivocally cheap, and towards the levels of 20 plus experienced in 2007, when patently they weren't.

I'd left the country intending to write about Delta, a company that galvanises metal and makes street lamp poles and motorway crash barriers, but on my return I was hit by the jitters. There's nothing wrong with the company. It passed through the recession unscathed, which was partly good fortune – most of its business is in Australia which sidestepped recession after the government mailed cheques to its citizens – and partly Delta's own doing.

Delta has rid itself of most of its huge defined benefit pension obligation, and is shedding some of its shareholdings in other companies. Neither the pension fund nor the shareholdings were a necessarily a blight on Delta's future profitability, but they could have been. Because they made the company more difficult to understand, they may have put investors off.

The risk in Delta is in the price, which is creeping towards levels where speculation and hope – what the busi-



Delta crash barriers at the British Embassy in Budapest

ness might be worth in the future – are more influential than what it is actually worth now in reality.

I first wrote about Delta on the Interactive Investor blog in May. Then, its share price was less than 120p and its 10-year p/e ratio was 11. Now, the shares cost 163p and the 10-year p/e ratio is pushing 15. At that level, it's close to the maximum I'd pay.

Assuming Delta's profits continue at the same level as they have over the past 10 years, it would take 15 years to get our

investment back or an annual return of around 7 per cent. Anything less is not worth lifting the laptop lid for.

Although we could make fancy projections about what Delta might make in future, I prefer to be conservative and take any improvements in its profits as a bonus. At this level, Delta is a conundrum. As the price rises, its potential as an investment decreases, and if it rises any more it will be too expensive to buy, perhaps for a long time. What should the price-conscious investor do?

I have to make this decision very soon. I'm reappraising the companies I've profiled in the last year or so to decide which to include in a portfolio I will maintain on the Interactive Investor blog. It's called the Thrifty 30, and is loosely inspired by an article I wrote in *Money Observer* in April.

The Thrifty 30 is a portfolio of good companies at cheap prices, and I think there will be room for Delta. It's important to have limits to protect you against reckless or foolish behaviour, but if you refuse to consider shares just below those limits, where would it end?

There's nothing wrong with Delta. It passed through the recession unscathed

Key stats Pension accounting

Press reports concentrate on pension deficits: the difference between how much a company's pension fund is worth and the value of its obligations (the pensions it will have to pay from the fund). Ultimately, a company might have to reduce the deficit to meet its obligations, using money that would otherwise go to shareholders or be reinvested. Sometimes though, the size of the pension fund is also a threat to investors, even if it's in surplus. That's because falling stock markets can quickly reduce the value of large pension funds, turning surpluses into deficits.

More information

<http://blog.iii.co.uk/category/thrifty-30/>
<http://blog.iii.co.uk/tag/delta/>
<http://www.iii.co.uk/LSE/DLTA>

Update

Motor manual publisher Haynes (Share Sleuth, July 2008), and war gaming company Games Workshop (Share Sleuth, October 2008) announced full-year results this summer. Haynes is 28 per cent above its last price, and Games Workshop is 22 per cent higher. Both still look relatively cheap, and I'm including them in the Thrifty 30.

Richard Beddard (richard.beddard@iii.co.uk) is companies and markets editor of Interactive Investor and a keen private investor. He writes about shares on the Interactive Investor blog.