



# Stock Analysis Essentials

## Workshop

1 August 2024

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We would like to draw your attention to the following important investment warnings:

- The value of shares and investments and the income derived from them can go down as well as up
- Investors may not get back the amount they invested
- Past performance is not a guide to future performance

Please note that all data in this document is historic and dated when this document went to print in July 2024.

# Welcome from your hosts



**Ed Croft**  
CEO and Co-Founder



**Megan Boxall**  
Head of Content



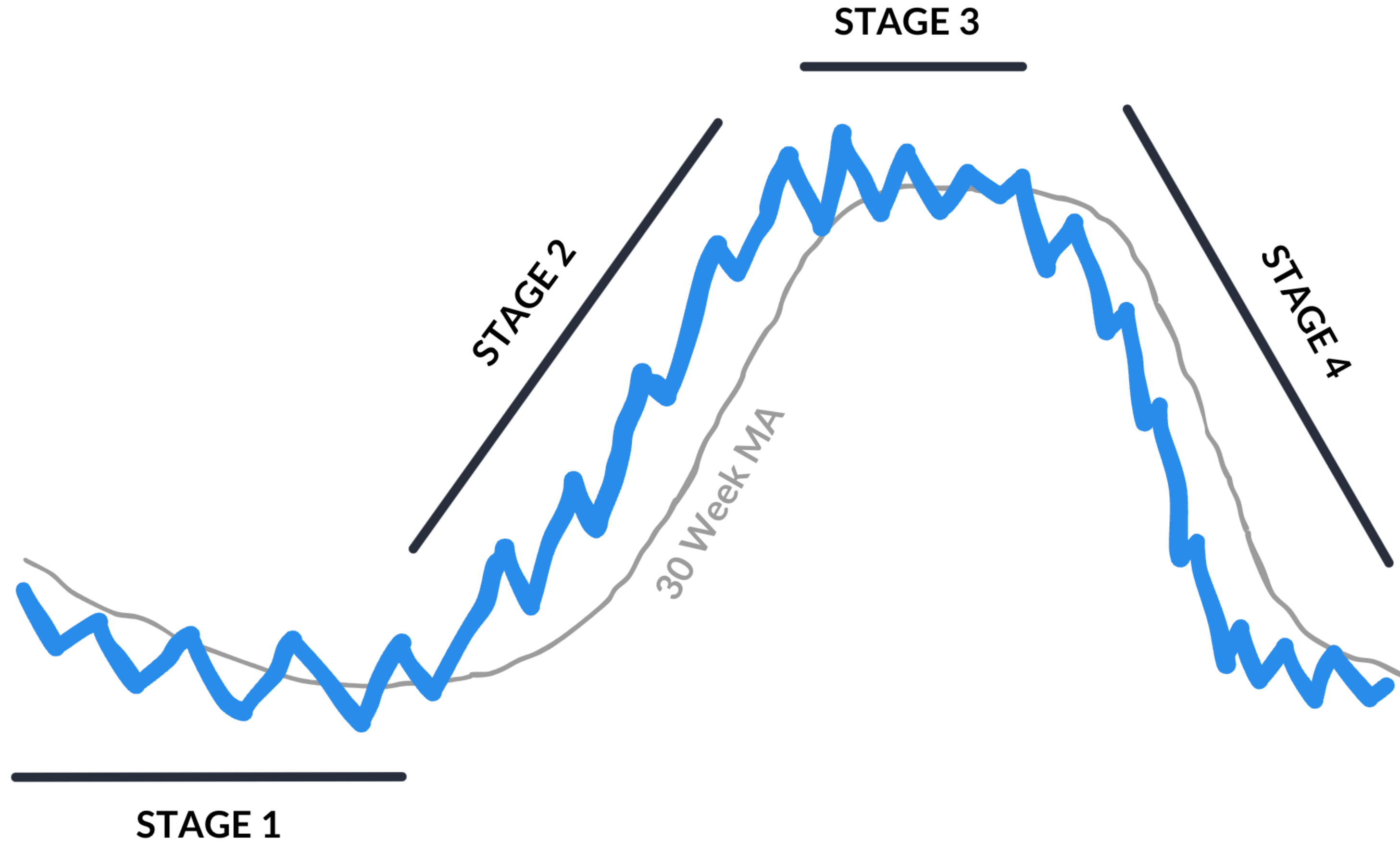
# Today's Agenda

- **Market Analysis** - The outlook for the markets
- **Card Factory**: Is boring sometimes good?
- **Nvidia**: Can the competitive advantage be maintained?



# Your Questions

What's going on in the markets?





## Mature Stage 2

- MA still uptrending
- Over-extended
- Natural reversals
- Volatility increases

## Watch for Stage 3:

- Break of 200d MA
- Downtrending MA



## Early Stage 2

- Break above 200d MA
- New uptrend forming

## Watch for failure

- Break below 200d MA

- Buy stocks when the indices are **above their moving averages (30w or 200d)**.
  - Strong evidence that returns are higher, and volatility lower.<sup>1</sup>
- When indices are **below their moving averages**:
  - Do not buy new positions (avoid volatility and keep your powder dry).
  - Let standard sell rules reduce your equity exposure (e.g. stop losses)<sup>2</sup>
  - Wait for trend change confirmation before buying new positions.

1. See Meb Faber - A Quantitative Approach to Tactical Asset Allocation by Meb Faber 

2. Stocks on the Move: Beating the Market with Hedge Fund Momentum Strategies: Clenow, Andreas F 



# Stock Analysis 1: CARD

UK Mid Cap (£400m) selling greetings cards and gifts online and on high street (omnichannel).

## Story

- **1058 UK stores**, added 26 in FY24.
- **Vertically integrated** - they design and create 75% of their cards/gifts - aiming for good quality at low prices.
- **Executing on 3-Pronged Strategy:**
  - a. **Omnichannel UK** (growing online and stores) - better service.
  - b. **Gifts & Celebrations** (expanding and upselling product range).
  - c. **International Partnerships** (middle east and south africa).

## Statistics

- **StockRank 99** (4th highest in the market). Good, cheap, strong.
- **Valuation** - 2nd cheapest P/E ratio (8) in specialty retail sector.
- **Quality** - 4th highest ROCE (18%) in specialty retail sector in the UK. Debt paid down, growing, 4.5% dividend, sensibly managed.
- **Chart Breakout** - after a long consolidation phase.

## Talking Points

- **New CEO** - David Rymer (ex Costcutter/Clinton Cards) since 2021.
- **No longer a big seller overhang** - Teleios Capital who owned 20% have now sold out completely. Australian Billionaire just bought 8% - Brett Blundy.
- **Some Risks** - competition, slow growth, international complexities.



# Stock Analysis 2: NVDA

## US Large Cap (\$2.64trn) designing graphics processing units for the full tech stack

### Story

- Pioneered the **Graphics Processing Unit (GPU)** which is integral to artificial intelligence networks, large data processing centres and autonomous vehicles
- **Designs** innovative GPUs which are manufactured by some of the world's biggest semiconductor companies
- **5 million developers** worldwide working with Nvidia GPUs

### Statistics

- **Revenue CAGR 39%** over five years and 124% in the last annual results
- Operating margins have risen from **26% in 2020 to 54% last year**
- **8 earnings upgrades** this year
- **\$30bn of cash and short term investments**
- **PEG ratio of 0.9** from PE ratio of 35 and 57% forecast earnings growth

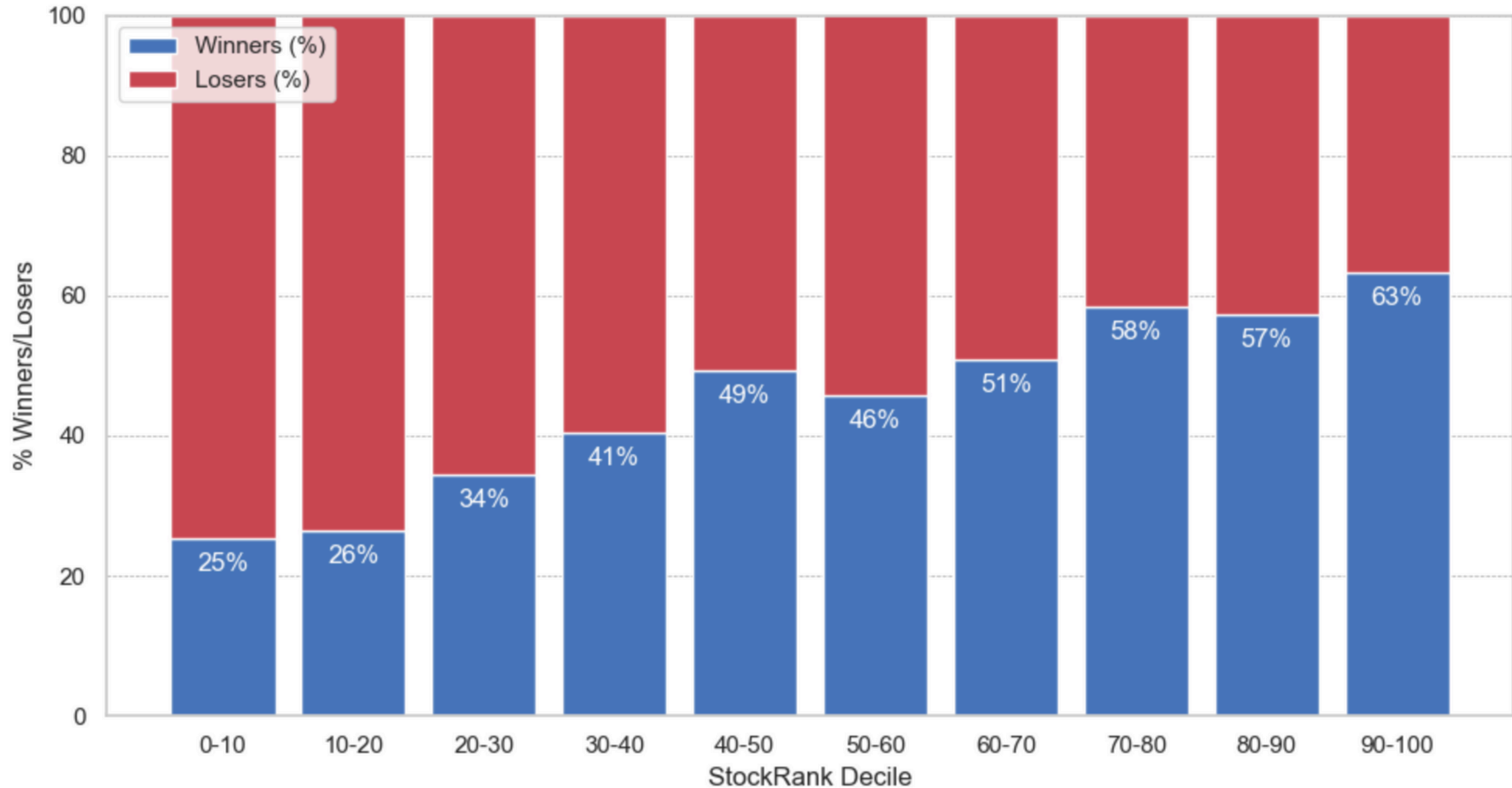
### Talking Points

- In June Nvidia briefly became the **biggest company in the world**
- Nervous **Goldman Sachs report** contributed to a blip in the share price more recently
- Dominant player in the fast growing **Artificial Intelligence (AI)** market



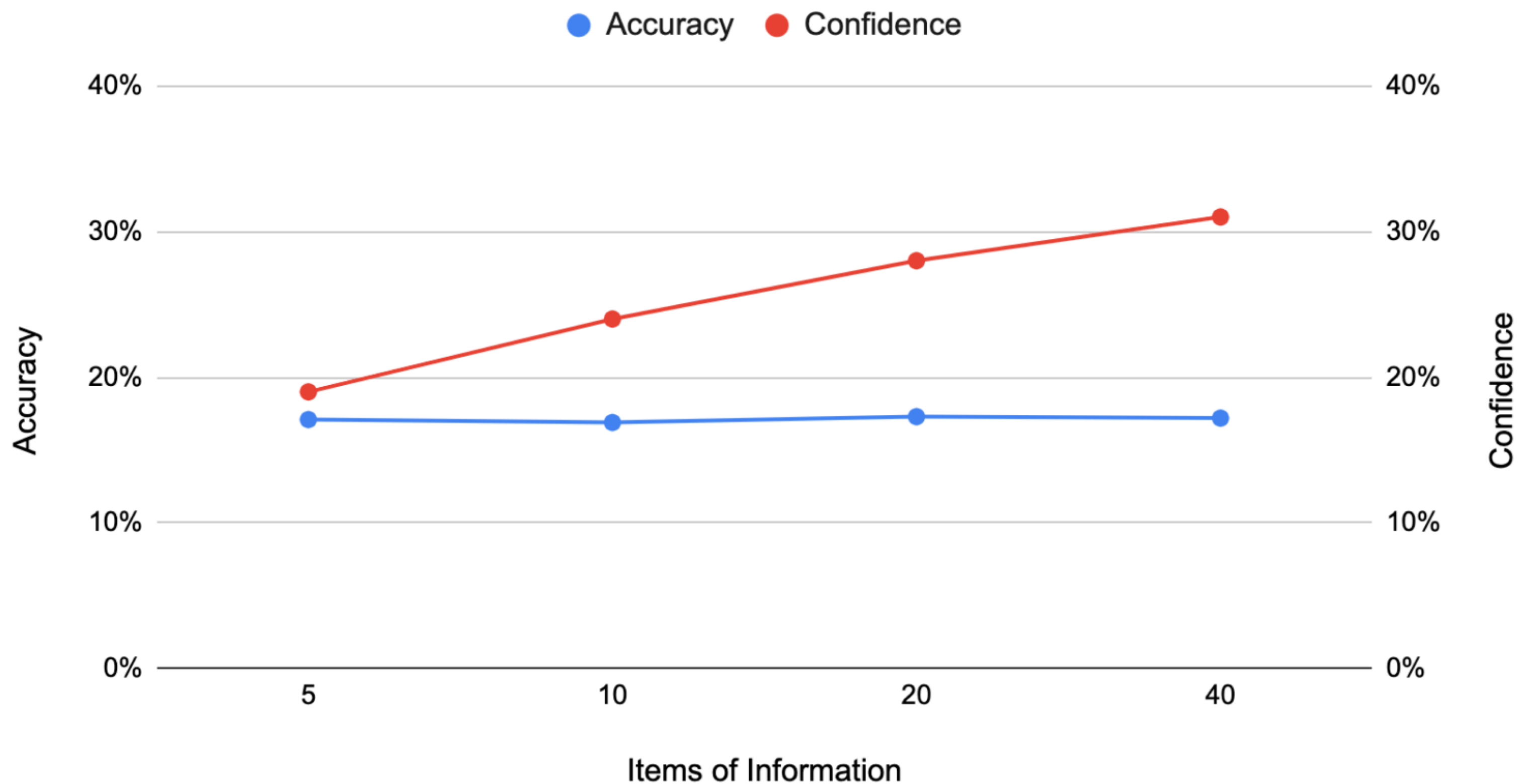
# Appendix

# Win / Lose Hit Rates for the StockRanks



Annualised returns of £10m+ LSE stocks, rebalanced bi-annually from 2013-2024.

# 🔍 How much research should you really do?



## Sales Growth Runway

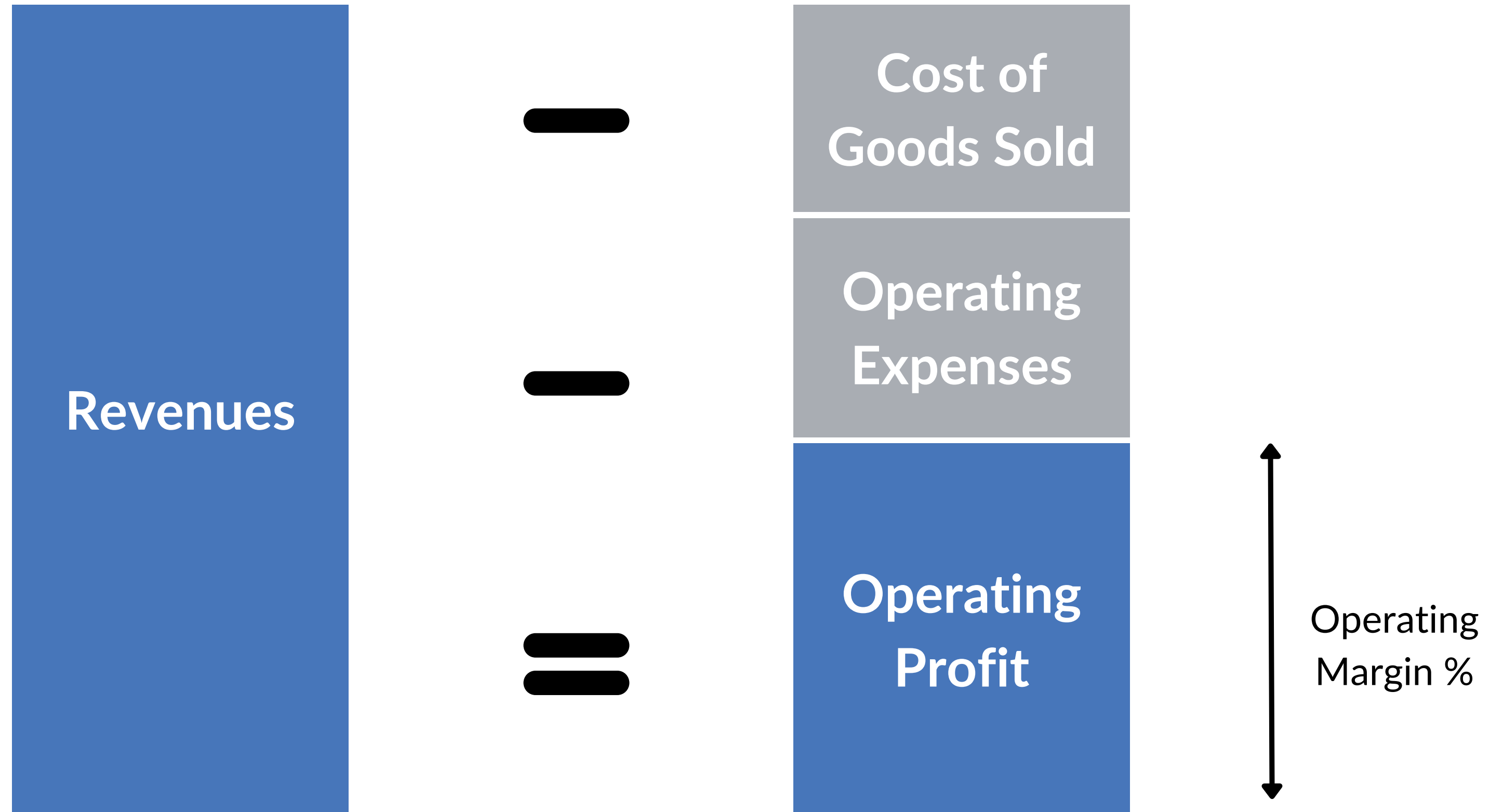
## Operating Leverage

## Multiple Expansion

# = 8 Bagger

*The Top 10 Smallcap Multibaggers were all profitable in 2013.*

*12/19 Top Microcap Multibaggers were profitable (historic or forecast) in 2013.*



# ? What is operating leverage?

If a company's costs are mostly "fixed", then it may benefit significantly from operating leverage as revenues grow. High Gross Margins help considerably.

$$\text{Operating Leverage} = \frac{\% \Delta \text{ in Operating Profit}}{\% \Delta \text{ in Revenue}}$$

