

# Running on empty?

**Richard Beppard** explains why Autologic is an ideal candidate for his Thrifty 30 portfolio, which is now starting to show marked outperformance of the FTSE All-Share index

Private investors like short cuts. Analysing companies is exhausting, so we tend to look out for those that fit our preconceived notions of what makes a good investment.

Autologic fits the Thrifty 30 template like a car fits a transporter. It's cheap and it could be recovering. The company distributes vehicles for many of the major car manufacturers from its centres in the UK, the Netherlands, Belgium and the Czech Republic. Happily for value investors, although not for employees, it's been through some very tough years.

Autologic was in trouble even before recession hit the car industry. In 2007 it lost a major contract with Ford, retreated from Spain and a French subsidiary went bust. It was still shedding drivers and transporters last year, and in February the UK government stopped a scrappage scheme that subsidised new car sales and propped up the industry.

So why the optimism? The shares are very cheap at 0.6 times book value, and Autologic is in the statistical sweet spot identified by Joseph Piotroski, who invented the F\_Score (see *Money Observer*, December 2008 or <http://blog.iii.co.uk/piotroski/>). Eight of the pro-

fessor's nine signals are positive, which indicates that it's among those broken companies most likely to survive and prosper. Profitability is slowly improving, while it is less indebted than it was last year.

Autologic's management, led by Avril Palmer-Baunack, seems to have stabilised the business, enabling it to benefit from weaknesses in its rivals, buying cheap transporters, broadening its range of services, and courting new customers such as car and van hire companies. Palmer-Baunack and her finance director Andrew Somerville joined from Universal Salvage, a company they turned around. I'm banking on them doing the same thing at Autologic.

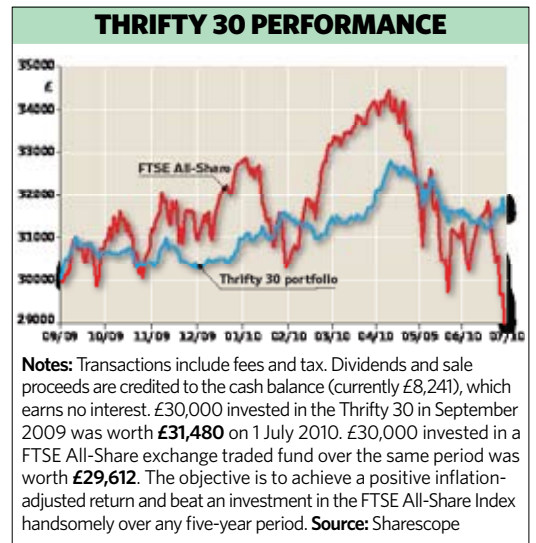
## UNDERSTANDING BOOK VALUE

Book value is the value of a company's assets, less its liabilities, as recorded in its balance sheet. It's also known as equity, net asset value or net worth. In theory, it's the value of everything a company owns after deducting everything it owes.

In practice it's a crude measure. Some companies are worth many times their book values, while some are worth less because accounting is imprecise, and companies add value to their assets by using them to make a product or service they can sell for a profit.

Book value gives us a different measure to the value put on a company by investors when they buy and sell shares. We can compare them by dividing the market value by the book value, a ratio known as price to book.

The market value of a successful company may be many times its book value because investors expect it to earn big returns, which will be paid in dividends or invested in new money-making ventures. The market value of a distressed company can fall below book value because investors fear that it will be una-



ble to profit or even stay in business.

Although buying successful companies seems like a safer bet, statistically speaking buying companies at inflated prices relative to their book values is more dangerous, while buying companies at low prices is more rewarding.

An economic explanation for this counter-intuitive fact is that companies earning high returns attract competition, which, in time, reduces profits and disappoints investors. Companies in trouble may survive and their competitors may fail, leading to increased profits and happy investors.

That doesn't mean every share with a low price to book value is a winner, and every company with a high price to book value is a loser. Indiscriminately investing in companies with low price to book values only reliably beats the stock market if you invest in large numbers of companies over long periods.

Analysing companies in more detail and using statistics that weed out some of the weakest cheap companies, such as the F\_Score for example, can improve the odds.

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### MORE THRIFTY 30 INFORMATION

This month I kept faith with high street printer [printing.com](http://www.printing.com), but decided not to add London Security and Andrews Sykes to the portfolio because very few shares are in public hands.

I thought Marks & Spencer and Vislink shares were cheap, but not cheap enough to displace one of the existing portfolio members.

<http://blog.iii.co.uk/about-the-thrifty-30>

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**Autologic:** <http://blog.iii.co.uk/tag/alg/>  
**Printing.com:** <http://blog.iii.co.uk/tag/pdc>