

Studio Retail Group

Interim results

A fine development

Studio's interim results and current trading statement indicate improving momentum and profitability across the majority of the businesses, highlighting that the shift to digital is improving the growth outlook. The planned disposal of the Education business should lead to higher growth rates for revenue and higher profitability for the remaining business. We upgrade our FY20 PBT estimate by 2% to take account of the improved gross margin performance, which leads to our DCF-based valuation increasing to 450p.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/18	479.6	26.8	25.9	0.0	9.1	N/A
03/19	506.8	28.8	26.5	0.0	8.9	N/A
03/20e	534.5	30.7	29.6	0.0	8.0	N/A
03/21e	556.5	31.8	30.6	0.0	7.7	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Studio benefiting from the shift to digital

The first six months of the financial year are somewhat seasonally less important (H119 was c 43% of FY19 revenue) for the Studio (Product and Financial Services) division. In total, the division's revenue was broadly flat at +0.3%, gross profit improved by 6% and adjusted operating profit increases by 1.1%. The company does not chase sales ahead of the peak trading period in Q3, in which, to date, it has traded strongly, with 10% Product revenue growth, underpinning our broadly unchanged assumption of 7% revenue growth for FY20. The company has highlighted record numbers of customers, single-day online sessions and daily dispatches, implying strong customer acceptance for the move to digital.

Planned disposal of Education

The planned disposal of Education to a competitor, YPO, for gross consideration of £50m (10.3x adjusted EBITDA in FY19), represents the final disposal in the transition to being a digital-first, value-focused retailer. Completion is expected in 2020 and the transaction is subject to clearance by the Competition and Markets Authority. Net proceeds are likely to be £35m, some of which may be invested in warehousing infrastructure. The transformation over the last two years, with changes to products, solutions, pricing and controlling of costs, is feeding through to improved profitability for Education: H120 revenue -1.4% and adjusted operating profit +64%, derived from greater volume of own brand and online sales at higher margin.

Valuation: Well supported by DCF valuation of 450p

Our revenue forecasts are relatively unchanged, but our PBT estimate for FY20 has increased by 2% to reflect the improved gross margin performance in H120. Our DCF-based valuation increases to 450p from 423p, representing a premium of 90% to the current share price.

Retail

19 December 2019

Price 236.5p
Market cap £204m

Net debt (£m) pre IFRS 16	241
Shares in issue	86.4m
Free float	61%
Code	STU
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	23.5	12.6	29.2
Rel (local)	19.1	8.3	13.1
52-week high/low		260p	154p

Business description

Studio Retail Group is a multi-channel retailer operating across the business-to-consumer and business-to-business market places. It is a market-leading value retailer and educational resource supplier in the UK.

Next events

Q320 trading statement	January 2020
Q420 trading statement	May 2020
Preliminary results	June 2020

Analysts

Russell Pointon	+44 (0)20 3077 5757
Neil Shah	+44 (0)20 3077 5700

consumer@edisongroup.com

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Studio Retail Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'000s	2018	2019	2020e	2021e
31 March year end		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		479,613	506,807	534,490	556,540
Cost of Sales		(281,706)	(298,000)	(308,787)	(319,185)
Gross Profit		197,907	208,807	225,703	237,355
EBITDA		46,594	50,948	54,789	55,929
Operating Profit (before amort. and except.)		38,171	41,510	43,496	45,791
Intangible Amortisation		(1,996)	(2,167)	(1,095)	(2,111)
Operating profit pre excl post-intang amortisation		36,175	39,343	42,401	43,681
Exceptionals		0	(4,158)	0	0
Other/share based payments		(199)	(926)	(1,000)	(1,000)
Operating Profit		35,976	34,259	41,401	42,681
Net Interest		(9,130)	(9,656)	(10,707)	(10,920)
Derivatives, other		(4,701)	4,750	0	0
Profit Before Tax (norm)		26,846	28,761	30,694	31,761
Profit Before Tax (FRS 3)		22,145	29,353	30,694	31,761
Tax		2,081	741	(6,139)	(6,352)
Profit After Tax (norm)		22,399	22,882	25,556	26,409
Profit After Tax (FRS 3)		24,226	30,094	24,556	25,409
Average Number of Shares Outstanding (m)		86.3	86.3	86.3	86.3
EPS - normalised (p)		25.9	26.5	29.6	30.6
EPS - normalised and fully diluted (p)		25.9	26.5	29.6	30.6
EPS - (IFRS) (p)		28.1	34.9	28.4	29.4
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		41.3	41.2	42.2	42.6
EBITDA Margin (%)		9.7	10.1	10.3	10.0
Operating Margin (before GW and except.) (%)		8.0	8.2	8.1	8.2
BALANCE SHEET					
Fixed Assets		81,675	81,025	88,489	89,241
Intangible Assets		25,175	24,952	23,734	22,624
Tangible Assets		47,596	45,517	55,394	57,257
Investments		8,904	10,556	9,360	9,360
Current Assets		311,878	322,887	341,738	362,636
Stocks		54,375	48,757	60,722	62,700
Debtors		230,802	235,923	252,494	264,441
Cash		26,244	37,603	27,997	34,970
Other		457	604	525	525
Current Liabilities		(81,190)	(76,415)	(83,729)	(86,970)
Creditors		(80,618)	(75,917)	(83,211)	(86,452)
Short term borrowings		(572)	(498)	(518)	(518)
Long Term Liabilities		(273,170)	(282,215)	(273,812)	(270,812)
Long term borrowings		(258,001)	(270,545)	(264,192)	(264,192)
Other long term liabilities		(15,169)	(11,670)	(9,620)	(6,620)
Net Assets		39,193	45,282	72,686	94,094
CASH FLOW					
Operating Cash Flow		11,439	22,356	19,194	37,245
Net Interest		(8,365)	(10,017)	(10,842)	(10,920)
Tax		581	(1,931)	(6,592)	(6,352)
Capex		(10,595)	(11,545)	(14,260)	(13,000)
Acquisitions/disposals		(450)	0	0	0
Financing		0	0	0	0
Dividends		0	0	0	0
Net Cash Flow		(7,390)	(1,137)	(12,500)	6,973
Opening net debt/(cash)		224,974	227,889	216,556	236,713
HP finance leases initiated		(545)	(571)	(2,458)	0
Other		5,020	13,041	(5,199)	(0)
Closing net debt/(cash)		227,889	216,556	236,713	229,740

Source: Company data, Edison Investment Research. Note: Financials are not adjusted for IFRS 16.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia