

Studio Retail Group

Impressive trading continues

H121 trading update

Studio's continued impressive sales performance in H120, despite the resumption of competitor trading on the high street, leads management to expect PBT from continuing operations (excluding Education) for FY21 will be ahead of its own internal expectations (there is no external management guidance). The company has a strong comparator for the upcoming key trading period to December, therefore the growth rate is likely to moderate. Its long-term targets of three million customers (versus current 2.1 million) and revenue of £1bn (versus FY20 revenue of £434.9m) as the shift to online retail continues suggests an attractive medium-term growth profile.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/19**	421.7	25.6	23.70	0.0	10.5	N/A
03/20**	434.9	11.0	8.12	0.0	30.5	N/A

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

The breakdown of Studio's Product sales growth of 39% y-o-y for the first 26 weeks of FY21 highlighted a re-acceleration in growth in recent weeks (first 11 weeks 55%, next nine weeks 27% and final six weeks of 30%). The growth continues to be driven by the appealing combination of expansion in active customers (+15% y-o-y to 2.1 million) and spend per customer, which are consistent with the long-term strategy. As the company approaches the key third-quarter trading period, the strong sales performance to date and management of ranges would suggest margin risk is more limited.

Financial Services revenue growth (+5.5%) continues to lag Product revenue growth due to management's initiatives, namely, investment in data and technology, to become a more responsible borrower, which have held back the growth in credit customers. The one-off dampening effect is likely to diminish through the remainder of the year. It is somewhat encouraging that the economic shock from COVID-19 has yet to affect collections, but management has already prudently made a provision of £20m for incremental bad debts that may emerge as the macroeconomic environment is likely to deteriorate.

The re-opening of schools has led to more encouraging trading for Education, for which sales have returned to more typical levels. The longstop date for the proposed sale of Education has been extended to the end of October, while the CMA completes its Phase 2 review.

The financial position is unquantified but the strong revenue growth and no deterioration in collections has led to an improved position versus levels that are typical of this time of year.

Retail

30 September 2020

Price **248p**

Market cap **£214m**

Net debt (£m) at 12 June 2020 30

Shares in issue 86.3m

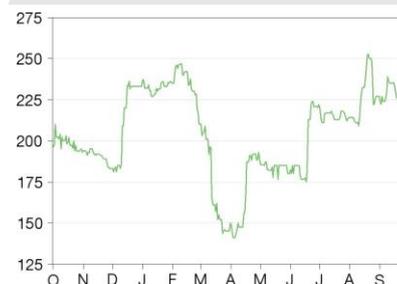
Free float 61%

Code STU

Primary exchange LSE

Secondary exchange N/A

Share price performance



Business description

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

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