

Studio Retail Group

Strong trading and more focused

Studio Retail Group's (SRG's) Q421 trading update highlights continued strong trading for the core online retail business through the end of FY21, buoyed in part by the forced closure of competitors on the high street. The (completed) disposal of the more challenged Education business completes the multi-year refocusing of the portfolio and leads to SRG now being a pure-play online retailer with an improved growth outlook than previously. The pro forma net cash position leaves the management team well placed to consider its options to enhance the group's growth profile and shareholder value, which the new CEO will present at the FY21 results at the end of June and at a capital markets day in July. Our forecasts are under review.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/19**	421.7	25.6	23.7	0.0	13.0	N/A
03/20**	434.9	27.4	8.2	0.0	37.4	N/A

Source: SRG. Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Continuing operations (ie excluding Education).

The trading statement highlights continued impressive trading through the end of FY21 for the core, Studio. Strong growth in customer numbers (active customers increased by 36% y-o-y to 2.5m, of which active credit customers grew by 15% to 1.5m) drove Product sales growth of 43% and a gross margin increase of 290bp for FY21. Following a 'record' performance during the more seasonally significant Q321 trading period (Product sales +32% y-o-y, gross margin +440bp) despite a strong comparative, growth accelerated in Q421 (Product sales +88% y-o-y, gross margin 650bp). For FY21, management indicates that adjusted PBT will be £48–50m, y-o-y growth of 75–83% on FY20's £27.3m (previously disclosed £27.4m).

The y-o-y improvement in both collections and the arrears profile of the credit book is testament to the company's multi-year investment in customer screening and management of its credit offer given prior fears about the potential negative effects of a more challenging macroeconomic environment.

The (received) gross proceeds for Findel Education of £30m are lower than the indicated £50m gross proceeds for the previously announced planned disposal to Yorkshire Purchasing Organisation, which was halted due to potential competition issues. However, the sale to Leeds-based private equity company, Endless LLP, had no market competition issues and was completed quickly with proceeds received on 16 April 2021. Studio's defined benefit pension will receive £9m of the net proceeds. The scheme is now in a strong surplus against its funding targets.

On a pro forma basis, including the above disposal proceeds and further securitisation post the year-end, the group is in a core net cash position. This follows the strong free cash flow generation during FY21 that reduced the core net debt position to £27.6m at the year-end (FY20 £51.8m).

Trading update and disposal

Retail

20 April 2021

Price 307p
Market cap £267m

Net debt (£m) at 31 March 2021	27.6
Shares in issue	86.9m
Free float	64.4%
Code	STU
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



Business description

Studio Retail Group is a leading online value retailer with an integrated financial services offer. It offers a broad product range including clothing, home and leisure. The growth strategy is based around three key levers: value, choice and payment options, and management's medium-term target is to achieve revenue of £1bn.

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