

SandpiperCI Group

FY21 results

Powering ahead

SandpiperCI's FY21 results demonstrate the group's resilience. In spite of lockdown-related store closures and significant extra pandemic-related costs such as PPE and social distancing measures, gross revenues were up 6% and trading EBITDA was up by 3%. We note FY20 was a 53-week year, therefore if the base is adjusted, the growth was 7% and 6% respectively. Trading has been better than expected at the newly-acquired Le Cocq's Stores in Alderney, and it is too early to comment on trading in the new Isle of Man territory owing to lockdowns. We leave our estimates for the group broadly unchanged and continue to see upside to the current share price.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 01/20 | 188.5 | 4.5 | 3.56 | 2.30 | 24.4 | 2.6 |
| 01/21 | 200.4 | 5.1 | 4.09 | 3.00 | 21.2 | 3.4 |
| 01/22e | 205.2 | 5.3 | 4.25 | 3.30 | 20.5 | 3.8 |
| 01/23e | 210.4 | 5.3 | 4.27 | 3.50 | 20.4 | 4.0 |

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

FY21: Sales ahead, trading EBITDA in line

FY21 results were broadly in line with our forecasts. Revenue of £200.4m was 2.7% ahead of our £195.2m estimate, while trading EBITDA of £11.31m was 0.5% ahead of our £11.26m forecast. Net debt of £17.6m was better than our expected £18.9m, but this was partly due to the timing of payments. We note that the food retail business was up 19% like-for-like (l-f-l), which was obviously boosted by the pandemic, but the performance was materially stronger than food retailers in mainland Britain during the same period.

Expansion opportunities remain

Sandpiper has been able to leverage its relationships with its franchise partners to open their brands in additional geographies, with recent openings of Card Factory and iQ stores on the Isle of Man. In our view, there are some opportunities for in-fill across existing geographies, and scope for entry into new territories, although we believe the larger long-term opportunity is likely to be an expansion into an adjacent segment such as hospitality.

Valuation: Fair value remains 130p

We value Sandpiper primarily on a DCF basis. Our model assumes medium-term sales growth of 3.5%, a terminal growth rate of 1.5% and broadly flat margins. At a WACC of 8.2%, this results in a fair value of 130p. While there are not many direct peers, Sandpiper trades on a CY21 P/E of 21.0x and EV/EBITDA of 9.4x, a c 20% and c 10% premium respectively to a peer group of food retailers and franchisors. We believe a premium is warranted given Sandpiper's significant freehold property portfolio (see [our initiation note](#) for more detail) and its attractive and well-underpinned dividend yield (3.9% in 2022).

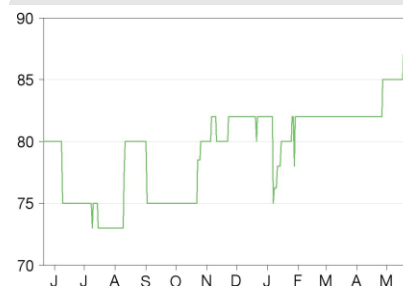
Retail

21 May 2021

Price 87p
Market cap £87m

| | |
|----------------------------------|--------|
| Net debt (£m) at 30 January 2021 | 17.6 |
| Shares in issue | 100m |
| Free float | 100% |
| Code | SANDPI |
| Primary exchange | TISE |
| Secondary exchange | N/A |

Share price performance



| | | | |
|------------------|-------|-------|-----|
| % | 1m | 3m | 12m |
| Abs | N/A | N/A | N/A |
| Rel (local) | N/A | N/A | N/A |
| 52-week high/low | 87.0p | 73.5p | |

Business description

SandpiperCI operates a high-quality portfolio of retail brands covering food, clothing and specialist products. It primarily operates franchise stores but also a number of its own food convenience stores. It is the leading Channel Islands retailer and is also present in Gibraltar and the Isle of Man.

Next events

| | |
|--------------|--------------|
| AGM | June 2021 |
| H121 results | October 2021 |

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FY21 results

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As discussed above, we leave our forecasts broadly unchanged following the FY21 results. We illustrate the minor changes to our forecasts below.

| Exhibit 1: Old versus new forecasts (FY21–23) | | | | | | | | | |
|---|---------|---------|--------|---------|---------|--------|---------|---------|--------|
| £000s | FY21e | FY21 | Change | FY22e | | | FY23e | | |
| | | | | Old | New | Change | Old | New | Change |
| Revenues | 195,189 | 200,380 | 2.7% | 202,151 | 205,182 | 1.5% | 209,373 | 210,424 | 0.5% |
| Gross profit | 15,160 | 16,232 | 7.1% | 15,701 | 15,937 | 1.5% | 16,262 | 16,344 | 0.5% |
| Gross margin | 7.8% | 8.1% | 0.3% | 7.8% | 7.8% | 0.0% | 7.8% | 7.8% | 0.0% |
| Trading EBITDA | 11,257 | 11,310 | 0.5% | 11,658 | 11,833 | 1.5% | 12,075 | 12,135 | 0.5% |
| Trading EBITDA margin (%) | 5.8% | 5.6% | (2.1%) | 5.8% | 5.8% | 0.0% | 5.8% | 5.8% | 0.0% |
| Normalised PBT | 5,407 | 5,118 | (5.3%) | 5,120 | 5,306 | 3.6% | 5,156 | 5,334 | 3.5% |
| Reported PBT | 3,707 | 4,729 | 27.6% | 5,120 | 5,306 | 3.6% | 5,156 | 5,334 | 3.5% |
| Normalised basic EPS (p) | 4.33 | 4.09 | (5.3%) | 4.10 | 4.25 | 3.6% | 4.12 | 4.27 | 3.5% |
| Normalised diluted EPS (p) | 4.33 | 4.09 | (5.3%) | 4.10 | 4.25 | 3.6% | 4.12 | 4.27 | 3.5% |
| Reported basic EPS (p) | 2.67 | 3.27 | 22.4% | 3.74 | 3.87 | 3.6% | 3.76 | 3.89 | 3.5% |
| Dividend per share (p) | 3.00 | 3.00 | 0.0% | 3.10 | 3.30 | 6.5% | 3.20 | 3.50 | 9.4% |
| Net debt/(cash) | 18,889 | 17,648 | (6.6%) | 18,350 | 17,018 | (7.3%) | 17,700 | 16,737 | (5.4%) |

Source: Edison Investment Research, company data

Valuation

We value Sandpiper primarily on a DCF basis. Our model assumes medium-term sales growth of 3.5%, a terminal growth rate of 1.5% and broadly flat margins. At a WACC of 8.2%, this results in a fair value of 130p. Our medium-term sales growth of 3.5% reflects consensus RPI forecasts of c 3% and modest growth in store space, as Sandpiper expands across its existing geographies.

We illustrate Sandpiper's valuation metrics versus its peers in Exhibit 2 below. Comparison is not straightforward as there are not many direct peers. We include the listed franchisors as peers although we recognise their business models are slightly different. Sandpiper trades on a CY21 P/E of 21.0x and EV/EBITDA of 9.4x, a c 20% and c 10% premium respectively to its peer group. We believe a premium is warranted given Sandpiper's significant freehold property portfolio, its attractive and well-underpinned dividend yield (3.5% in 2021), and management's recognition that dividend yield is important to its investors. While there is no defined catalyst to suggest a revaluation is imminent, we believe continued earnings growth will underpin the shares. In addition, the significant freehold property valuation (last valued in January 2021) lends support to the valuation.

Exhibit 2: Peer group valuation (calendarised)

| | Market cap (m) | P/E (x) | | EV/EBITDA (x) | | Dividend yield (%) | |
|---|-------------------|--------------|--------------|---------------|--------------|--------------------|---------------|
| | | 2021e | 2022e | 2021e | 2022e | 2021e | 2022e |
| Sainsbury | £5,882.3 | 14.8 | 12.2 | 5.3 | 5.1 | 4.4 | 4.3 |
| Tesco | £17,855.2 | 13.0 | 11.2 | 7.3 | 6.9 | 4.3 | 4.6 |
| Wm Morrison | £4,403.0 | 13.6 | 12.4 | 6.9 | 6.6 | 5.0 | 4.9 |
| Marks & Spencer | £3,043.7 | 24.3 | 11.0 | 7.0 | 6.2 | 1.9 | 3.5 |
| Hotel Chocolat | £475.7 | 80.3 | 40.0 | 16.3 | 13.1 | 0.1 | 0.2 |
| Card Factory | £292.4 | 27.5 | 10.0 | 10.2 | 6.4 | 1.2 | 7.3 |
| McColl's | £44.2 | 9.8 | 8.0 | 6.5 | 6.8 | 0.0 | 0.0 |
| Domino's Pizza | £1,749.7 | 19.8 | 18.6 | 16.9 | 16.2 | 2.6 | 2.5 |
| DP Eurasia | £105.4 | 63.8 | 18.5 | 8.8 | 7.0 | 0.0 | 0.0 |
| Peer group average | | 17.5 | 11.9 | 8.6 | 7.7 | 2.8 | 3.9 |
| Sandpiper | £87.0 | 21.0 | 20.1 | 9.4 | 9.0 | 3.5 | 3.9 |
| Premium/(discount) to peer group | | 19.8% | 68.5% | 9.9% | 16.4% | 24.8% | (1.0%) |

Source: Refinitiv, Edison Investment Research, company data. Note: Priced at 18 May 2021. Average excludes Hotel Chocolat and DP Eurasia.

We exclude Hotel Chocolat and DP Eurasia from our peer group average as their metrics skew the average of the rest of the group. Sandpiper trades at a premium to its peers on both P/E and EV/EBITDA. This is justified by its strong property portfolio and an attractive dividend yield, in our view. The current equity market valuation is £87m, or an EV of £105m. With a property portfolio valued at £64m, this implies the franchise operations are valued at just £41m. Of course, for full comparison, an operating company stripped of the property would have to bear rental costs instead of depreciation. The dividend is well covered by free cash flow and Channel Island investors should benefit from tax relief on any dividends paid after December 2020.

Exhibit 3: Financial summary

| | £000s | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Year end 31 January | | FRS102 | FRS102 | FRS102 | FRS102 | FRS102 | FRS102 | FRS102 |
| INCOME STATEMENT | | | | | | | | |
| Revenue | | 174,884.0 | 189,056.0 | 188,475.0 | 200,380.0 | 205,181.7 | 210,423.8 | 215,658.5 |
| Cost of Sales | | (160,200.0) | (174,956.0) | (173,836.0) | (184,148.0) | (189,245.1) | (194,080.0) | (198,908.2) |
| Gross Profit | | 14,684.0 | 14,100.0 | 14,639.0 | 16,232.0 | 15,936.6 | 16,343.8 | 16,750.4 |
| EBITDA | | 8,444.0 | 10,013.0 | 10,973.0 | 11,310.0 | 11,833.0 | 12,135.3 | 12,437.2 |
| Normalised operating profit | | 3,838.0 | 5,003.0 | 5,834.0 | 5,972.0 | 6,012.4 | 6,014.9 | 6,026.7 |
| Amortisation of acquired intangibles | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | | (1,395.0) | 4,309.0 | (2,390.0) | (389.0) | 0.0 | 0.0 | 0.0 |
| Share-based payments | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported operating profit | | 2,443.0 | 9,312.0 | 3,444.0 | 5,583.0 | 6,012.4 | 6,014.9 | 6,026.7 |
| Net Interest | | (1,306.0) | (1,207.0) | (1,058.0) | (854.0) | (705.9) | (680.7) | (669.5) |
| Joint ventures & associates (post tax) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | | 0.0 | 0.0 | (257.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit Before Tax (norm) | | 2,532.0 | 3,796.0 | 4,519.0 | 5,118.0 | 5,306.5 | 5,334.2 | 5,357.2 |
| Profit Before Tax (reported) | | 1,137.0 | 8,105.0 | 2,129.0 | 4,729.0 | 5,306.5 | 5,334.2 | 5,357.2 |
| Reported tax | | (1,248.0) | (1,348.0) | (1,281.0) | (1,462.0) | (1,432.7) | (1,440.2) | (1,446.4) |
| Profit After Tax (norm) | | (247.2) | 3,036.8 | 3,563.8 | 4,094.4 | 4,245.2 | 4,267.3 | 4,285.7 |
| Profit After Tax (reported) | | (111.0) | 6,757.0 | 848.0 | 3,267.0 | 3,873.7 | 3,893.9 | 3,910.7 |
| Minority interests | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discontinued operations | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income (normalised) | | (247.2) | 3,036.8 | 3,563.8 | 4,094.4 | 4,245.2 | 4,267.3 | 4,286.7 |
| Net income (reported) | | (111.0) | 6,757.0 | 848.0 | 3,267.0 | 3,873.7 | 3,893.9 | 3,910.7 |
| Basic average number of shares outstanding (m) | | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| EPS - basic normalised (p) | | (0.25) | 3.04 | 3.56 | 4.09 | 4.25 | 4.27 | 4.29 |
| EPS - diluted normalised (p) | | (0.25) | 3.04 | 3.56 | 4.09 | 4.25 | 4.27 | 4.29 |
| EPS - basic reported (p) | | (0.11) | 6.76 | 0.85 | 3.27 | 3.87 | 3.89 | 3.91 |
| Dividend (p) | | 0.50 | 1.00 | 2.30 | 3.00 | 3.30 | 3.50 | 3.60 |
| Revenue growth (%) | | 12.4 | 8.1 | -0.3 | 6.3 | 2.4 | 2.6 | 2.5 |
| Gross Margin (%) | | 8.4 | 7.5 | 7.8 | 8.1 | 7.8 | 7.8 | 7.8 |
| EBITDA Margin (%) | | 4.8 | 5.3 | 5.8 | 5.6 | 5.8 | 5.8 | 5.8 |
| Normalised Operating Margin | | 2.2 | 2.6 | 3.1 | 3.0 | 2.9 | 2.9 | 2.8 |
| BALANCE SHEET | | | | | | | | |
| Fixed Assets | | 76,015.0 | 92,809.0 | 95,748.0 | 98,468.0 | 97,776.9 | 97,969.2 | 98,028.5 |
| Intangible Assets | | 27,268.0 | 26,169.0 | 24,454.0 | 24,605.0 | 23,059.0 | 21,513.0 | 19,967.0 |
| Tangible Assets | | 48,745.0 | 66,471.0 | 71,292.0 | 73,861.0 | 74,715.9 | 76,454.2 | 78,059.5 |
| Investments & other | | 2.0 | 169.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Current Assets | | 26,070.0 | 23,295.0 | 26,014.0 | 22,114.5 | 22,522.6 | 23,250.6 | 24,017.7 |
| Stocks | | 10,203.0 | 10,447.0 | 10,505.0 | 11,990.0 | 11,354.7 | 11,644.8 | 11,934.5 |
| Debtors | | 4,089.0 | 5,229.0 | 5,714.0 | 5,742.0 | 6,155.5 | 6,312.7 | 6,469.8 |
| Cash & cash equivalents | | 11,778.0 | 7,619.0 | 9,795.0 | 4,382.5 | 5,012.4 | 5,293.1 | 5,613.5 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Liabilities | | (49,207.0) | (31,127.0) | (33,566.0) | (30,916.3) | (30,059.8) | (30,586.1) | (31,101.8) |
| Creditors | | (27,856.0) | (29,215.0) | (26,716.0) | (29,054.0) | (28,197.5) | (28,723.8) | (29,239.5) |
| Tax and social security | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Short term borrowings | | (21,351.0) | (1,912.0) | (6,850.0) | (1,862.3) | (1,862.3) | (1,862.3) | (1,862.3) |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Liabilities | | (2,722.0) | (25,047.0) | (24,556.0) | (23,957.0) | (23,957.0) | (23,957.0) | (23,957.0) |
| Long term borrowings | | (101.0) | (23,367.0) | (22,038.0) | (20,168.0) | (20,168.0) | (20,168.0) | (20,168.0) |
| Other long term liabilities | | (2,621.0) | (1,680.0) | (2,518.0) | (3,789.0) | (3,789.0) | (3,789.0) | (3,789.0) |
| Net Assets | | 50,156.0 | 59,930.0 | 63,640.0 | 65,709.2 | 66,282.7 | 66,676.6 | 66,987.4 |
| Minority interests | | 0.0 | 0.0 | 0.0 | (468.5) | (468.5) | (468.5) | (468.5) |
| Shareholders' equity (excl minorities) | | 50,156.0 | 59,930.0 | 63,640.0 | 65,240.7 | 65,814.2 | 66,208.1 | 66,518.9 |
| CASH FLOW | | | | | | | | |
| Op Cash Flow before WC and tax | | 8,444.0 | 10,013.0 | 10,973.0 | 11,310.0 | 11,833.0 | 12,135.3 | 12,437.2 |
| Working capital | | 2,195.0 | (1,306.0) | (3,329.0) | 1,052.0 | (634.6) | 79.0 | 68.9 |
| Exceptional & other | | (2,475.0) | (3,849.0) | (3,052.0) | (1,498.0) | (705.9) | (680.7) | (669.5) |
| Tax | | (6.0) | (30.0) | (1,700.0) | (1,471.0) | (1,432.7) | (1,440.2) | (1,446.4) |
| Net operating cash flow | | 8,158.0 | 4,828.0 | 2,892.0 | 9,393.0 | 9,059.7 | 10,093.3 | 10,390.2 |
| Capex | | (3,877.0) | (3,458.0) | (8,548.0) | (2,325.3) | (5,129.5) | (6,312.7) | (6,469.8) |
| Acquisitions/disposals | | (4,212.0) | (10,272.0) | 0.0 | (2,610.0) | 0.0 | 0.0 | 0.0 |
| Net interest | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity financing | | 0.0 | 0.0 | 2,419.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends | | 0.0 | 0.0 | (2,254.0) | (2,996.4) | (3,300.0) | (3,500.0) | (3,600.0) |
| Other | | 4,750.0 | 4,751.0 | 7,681.0 | (6,886.0) | 0.0 | 0.0 | 0.0 |
| Net Cash Flow | | 4,819.0 | (4,151.0) | 2,190.0 | (5,424.7) | 630.1 | 280.6 | 320.4 |
| Opening net debt/(cash) | | (7,229.0) | 9,674.0 | 17,660.0 | 19,093.0 | 17,648.0 | 17,017.9 | 16,737.2 |
| FX | | (270.0) | (8.0) | (14.0) | 12.0 | 0.0 | 0.0 | 0.0 |
| Other non-cash movements | | (21,452.0) | (3,827.0) | (3,609.0) | 6,857.7 | 0.0 | 0.0 | 0.0 |
| Closing net debt/(cash) | | 9,674.0 | 17,660.0 | 19,093.0 | 17,648.0 | 17,017.9 | 16,737.2 | 16,416.8 |

Source: Company data, Edison Investment Research

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