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Loungers

Travel & leisure

3 August 2021

On a roll

With Loungers trading 'fantastically well' and its organic growth strategy 'never looking more relevant', management is pulling no punches. Since full reopening on 17 May, its first nine weeks' like-for-like sales growth of 24% on the same period of 2019 shows material market outperformance (restaurants +8% like-for-like in June, according to Coffer CGA Business Tracker) and sustains the buoyancy of its initial month (+27%). Yet more striking is Loungers' resumption of its historical run rate of 25 openings a year (seven in the latest quarter) with clear scope to accelerate (already filling FY23 pipeline) and at increasingly attractive sites, given the boost from pandemic fallout and strong finances (c £30m current liquidity). Staffing challenges should be mitigated by ensuring that Loungers remains a hospitality employer of choice.

The good gets better

Notwithstanding clear growth opportunities after COVID-19 for a well-funded business, Loungers' rapid roll-out and improving property options are testimony to active planning during lockdown and demonstrable buoyancy when permitted to trade. In particular, newly available prime sites in key locations, including coastal and Greater London (not city centre), are now complemented by growing diversity of location at the right price, following for example the successful opening just before the pandemic at Rushden Lakes, a destination shopping centre, thereby bucking Lounge's neighbourhood suburban high street focus. Annual roll-out of 25 sites (20 Lounges, five Cosy Clubs) may well now be exceeded, accelerating target plans of 500 outlets (400 Lounges, 100 Cosy Clubs). Other recent enhancements include the web-based, at-seat ordering app ('here to stay'), outside space (extended by c 1,000 covers or six Lounges) and menus (notably at Cosy Club).

H221: Predictably subdued

With the 28 weeks to April 2021 riven by restrictions (loss of 78% of trading days), revenue and EBITDA were down 71% and 95% respectively year-on-year. Government grant support of £3.5m was more than matched by COVID-19 labour costs, eg furlough contributions, and opening and closing sites. Non-property net debt more than doubled in the period to £34m, but has since halved on reopening.

Valuation: Appetising

Appreciation of Loungers' growth prospects should override concern about short-term challenges. With FY23 set to be driven by expansion payoff and the current year benefiting from COVID-19 support, prospective multiples are undemanding.

Consensus estimates

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)
04/20	166.5	26.5	2.0	2.4	0.0	16.0
04/21	78.3	13.5	(13.4)	(9.8)	0.0	31.8
04/22e	216.5	44.5	15.2	11.0	0.0	8.3
04/23e	245.1	43.4	11.9	7.7	0.0	8.6

Source: Refinitiv. Note: *After pre-opening costs.

Price	277p
Market cap	£284m

Share price graph

Share details

Code	LGRS
Listing	AIM
Shares in issue	102.7m

Business description

Founded in 2002, Loungers operates 176 all-day neighbourhood café/bars across England and Wales as Lounges and Cosy Clubs. Notwithstanding brand similarities, Cosy Clubs (30) tend to be larger in terms of interiors and location and more formal/ occasion led. The company joined AIM in April 2019.

Bull

- Proven, successful offer with a well-invested estate and scalable brands suited to post-pandemic conditions.
- Burgeoning, high-quality pipeline (already filling FY23) with openings returning to pre-COVID-19 levels and on favourable terms on pandemic fallout.
- Strong finances (current £39m total liquidity and near-halving of headline net debt since April reopening).

Bear

- Macro uncertainty, particularly regarding the impact of COVID-19.
- Potentially lingering staff shortages owing to tight labour market, now exacerbated by COVID-19.
- Execution risk in terms of planned expansion, although positive record of delivery.

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