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Lewis Group

ANCHOR STOCKBROKERS

1H26 – A resilient performance

- Lewis announced 1H26E HEPS of 648c (+17%), marginally below expectations given lower merchandise sales (+6.7%), primarily due to disappointing cash sales (+3.7%), and higher costs, partly due to accelerated store roll outs. However, given the operating environment, it's an impressive performance with its 55% dividend payout ratio intact. The results also reflect a tax rate rising from 21.1% to 25.1%.
- 2H25 delivered an incredibly strong performance with GP margins rising from 41% in 1H25 to 44.9% in 2H25. This was driven by strong uptake for its new product range in Black Friday and festive season trading as well as favourable shipping and FX rates. 2H26E should also benefit from a new product range and positive FX moves, however, the shipping rate tailwind is not present and therefore GP margins are unlikely to revisit 44.9%. Therefore, maintaining a 17% growth rate in HEPS for FY26E is optimistic.
- The operating environment remains challenging with disposable income under ongoing pressure. Merchandise sales was impacted by a weak performance from UFO (reversing the 2H25 recovery) and declining sales in Botswana. Cash sales rose 3.7% off a base that declined 6.7%. Credit sales increased 8% and is now 70.3% (69.4%) of total sales - the growth rate has slowed given a high base (3 year CAGR of 15% p.a) and a higher credit decline ratio, 41.2% vs 37.4%. Its ability to facilitate sales with well managed credit is its competitive advantage in this constrained consumer environment. Shoprite and Pepkor's furniture operations achieved 4.2% and 7.2% merchandise sales growth in the 12 months to 29 June 2025 and 30 Sep 2025.
- Other revenue increased strongly, +16.7%, marginally ahead of expectations, benefitting from the strong credit sales over the past few years. Finance income rose 15.7%, a rate we believe is sustainable for the year. The growth rate will, however, begin to decline as new business is written at 23.75%, below the current 24.1% yield. Insurance grew 13.7%, benefitting from lower lapse rates reflecting a better quality customer. We forecast other revenue to grow 17.1% in FY26E.
- Credit quality remains well managed, with satisfactory paid customers at 82.7%, an all-time interim high. The sharp rise in discretionary spend allocated to gambling in SA has had no impact on credit quality. The book remains well provided for at 36.9% (37.2% in FY25). We continue to believe that the book is considerably overprovided for but there is no discretion to reduce provisions given 31.1% of the coverage is formulaic with 5.8% being overlay provisions that reflect the economic outlook. After providing for slow payers arrears, non-performing accounts and >3m arrears in satisfactory, there remains R1277m of provisions, which equates to R24.60/share, 25% of its R98 NAV.
- A rising credit sales ratio and a higher debtors book, continue to positively impact operating margins given that the financials services revenues, now 48% (43% in 1H24) of total revenue, is growing (+17%) ahead of total cost growth (+11%) and the debtors charge (+13%). As a consequence, operating margins have risen from 18.2% in 1H25 to 20.7%, ahead of the guidance of 16-20%. We anticipate a margin of 24% in FY26E with limited scope for meaningful future expansion as the yield on the debtors book declines and credit sales growth slows off an elevated base.
- Share buy backs remain suspended with capital allocated to the debtors book and maintaining the 55% dividend payout ratio. The debtors book has also been funded with debt (including a R500m lower rate bond issuance) that has risen from R1.5bn to R1.7bn – this should decline in 2H26E as inventory levels decline.
- We revise FY26E & FY27E HEPS from 1677c and 1909c to 1642c (+11%) and 1846c (+12%). Our DFCF valuation range is R86-112/share benefiting from a lower risk free rate. Our FY28E ROE is 17.1%, marginally short of the medium term target of 17.5%. At the mid-point of our valuation (R99), the stock trades on an attractive fwd. 5.7x P/E, a P/B of 0.89x. Its fwd. ROE is above its WACC, suggesting the stock should trade above NAV.

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Price (25/11/2025)	R82.80
Market cap	R4306mn
Shares in issue	52mn

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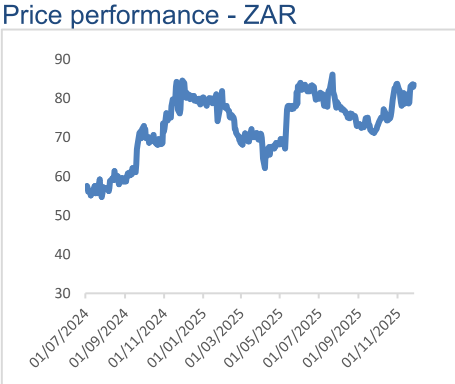
Price performance - ZAR



Source: FactSet

Figure 1 Financial summary

Year Ending	FY2022A	FY2023A	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Income Statement							
Merchandise Sales	4,383	4,443	4,653	5,081	5,454	5,956	6,460
Sales growth (%)	*11.5%*	*1.4%*	*4.7%*	*9.2%*	*7.3%*	*9.2%*	*8.5%*
Gross profit	1,775	1,806	2,006	2,207	2,351	2,549	2,778
growth %	*8.1%*	*1.8%*	*11.1%*	*10.0%*	*6.5%*	*8.5%*	*9.0%*
GP margin %	*40.5%*	*40.6%*	*43.1%*	*43.4%*	*43.1%*	*42.8%*	*43.0%*
Finance income	1,280	1,334	1,655	2,047	2,414	2,682	2,904
growth %	*0.7%*	*4.2%*	*24.0%*	*23.7%*	*17.9%*	*11.1%*	*8.3%*
Insurance income	776	854	986	1,181	1,388	1,520	1,642
growth %	*9.7%*	*10.1%*	*15.4%*	*19.8%*	*17.5%*	*9.5%*	*8.0%*
Ancillary income	818	825	891	979	1,123	1,226	1,320
growth %	*0.2%*	*0.9%*	*8.0%*	*9.9%*	*14.7%*	*9.2%*	*7.7%*
Total other revenue	2,874	3,013	3,531	4,207	4,925	5,428	5,866
growth %	*2.8%*	*4.9%*	*17.2%*	*19.1%*	*17.1%*	*10.2%*	*8.1%*
Debtors costs	702	720	1,225	1,193	1,332	1,435	1,467
growth %	*-13.6%*	*2.4%*	*70.3%*	*-2.6%*	*11.6%*	*7.7%*	*2.3%*
% of gross debtors	*12.0%*	*11.8%*	*17.6%*	*14.7%*	*14.5%*	*14.1%*	*13.5%*
EBITDA	996	960	1,124	1,548	1,719	1,875	2,023
EBITDA Margin (%)	*22.7%*	*21.6%*	*24.2%*	*30.5%*	*31.5%*	*31.5%*	*31.3%*
EBIT	668	609	690	1,152	1,311	1,445	1,577
EBIT Margin (%)	*15.2%*	*13.7%*	*14.8%*	*22.7%*	*24.0%*	*24.3%*	*24.4%*
Recurring EBIT	767	703	754	1,166	1,326	1,445	1,577
Recurring EBIT Margin (%)	*17.5%*	*15.8%*	*16.2%*	*22.9%*	*24.3%*	*24.3%*	*24.4%*
Profit before tax	674	567	591	984	1,109	1,291	1,429
Net profit	483	411	437	755	830	955	1,057
Net profit post minorities	483	411	437	755	830	955	1,057
Headline Earnings	561	510	501	768	845	955	1,057
% growth	*21.2%*	*-9.1%*	*-1.8%*	*53.3%*	*10.1%*	*13.0%*	*10.7%*
Basic EPS (ZAc)	731	695	808	1,457	1,612	1,846	2,033
Headline EPS (ZAc)	849	863	926	1,483	1,642	1,846	2,033
% growth	*37.7%*	*1.7%*	*7.3%*	*60.1%*	*10.7%*	*12.4%*	*10.2%*
DPS (ZAc)	413	413	500	800	887	1,015	1,220
Payout ratio (%)	*56.5%*	*59.4%*	*61.9%*	*54.9%*	*55.0%*	*55.0%*	*60.0%*
Balance Sheet							
Cash and Cash equivalents	308	183	224	175	192	202	223
Current asset (ex – cash)	4,739	5,175	5,547	6,459	7,279	8,058	8,627
Net Fixed assets	396	426	442	467	470	475	489
Intangible assets	258	175	110	127	129	132	134
Investments	266	257	243	160	193	235	276
Other assets	940	916	967	1,052	1,102	1,156	1,221
Total assets	**6,907**	**7,133**	**7,533**	**8,440**	**9,364**	**10,259**	**10,970**
Debt	81	368	426	1,055	300	1,100	900
Current liabilities	1,305	1,252	1,217	1,452	1,513	1,632	1,744
Other liabilities	805	820	1,188	854	2,116	1,205	1,162
Total liabilities	**2,190**	**2,440**	**2,831**	**3,362**	**3,930**	**3,937**	**3,806**
Shareholders' equity	4,717	4,693	4,703	5,078	5,509	5,955	6,447
Minorities	0	0	0	0	0	0	0
Total shareholders' equity	**4,717**	**4,693**	**4,703**	**5,078**	**5,509**	**5,955**	**6,447**
BVPS (ZAR)	*7,523*	*8,218*	*8,890*	*9,861*	*10,697*	*11,451*	*12,397*
ROE (%)	*11.7%*	*10.8%*	*10.7%*	*15.7%*	*16.0%*	*16.7%*	*17.1%*

Year Ending	FY2022A	FY2023A	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Cash Flow							
Reported net profit	**483**	**411**	**437**	**755**	**830**	**955**	**1,057**
Change in net working capital	-156	-239	-1,021	-1,055	-1,139	-675	-471
Dividends paid	-254	-241	-224	-310	-436	-518	-565
Other adjustments	618	482	1,267	1,170	1,294	1,380	1,353
Cash flow from operations	**691**	**412**	**459**	**560**	**550**	**1,142**	**1,374**
Net Capex	-67	-125	-118	-123	-142	-149	-162
Capex/sales (%)	*1.5%*	*2.8%*	*2.5%*	*2.4%*	*2.6%*	*2.5%*	*2.5%*
Other investing cash flows	102	51	41	-39	-2	-3	-3
Cash flow from investing	**34**	**-74**	**-77**	**-162**	**-144**	**-152**	**-165**
Equity raised/(bought back)	-408	-310	-222	-120	-68	28	0
Net inc/(dec) in borrowings	0	0	350	-350	420	-175	-300
Other financing cash flows	-551	-547	-529	-610	-745	-837	-895
Cash flow from financing	**-959**	**-856**	**-399**	**-1,077**	**-389**	**-980**	**-1,189**
Net cash flow	**-234**	**-517**	**-17**	**-679**	**17**	**10**	**20**
Free cash flow	**582**	**441**	**-169**	**142**	**160**	**716**	**1,019**
Repayment of lease liabilities	**-297**	**-305**	**-303**	**-297**	**-306**	**-315**	**-324**
Net free cash flow	**285**	**136**	**-472**	**-155**	**-146**	**401**	**694**
Valuation Summary							
Valuation Metrics							
Share Price (ZAc)	4,696	4,100	4,350	8,280	8,280	8,280	8,280
P/E (Underlying) (x)	5.5	4.7	4.7	5.6	5.0	4.5	4.1
P/BV (x)	0.6	0.5	0.5	0.8	0.8	0.7	0.7
EV/Sales (x)	1.5	1.5	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	6.6	6.8	5.8	4.2	3.8	3.5	3.2
EV/EBIT (x)	9.8	10.8	9.5	5.7	5.0	4.5	4.2
FCF Yield (%)	6.7	3.2	-11.1	-3.6	-3.4	9.4	16.3
Dividend Yield (%)	8.8	10.1	11.5	9.7	10.7	12.3	14.7

Source: Company data, FactSet, ASB estimates

Debtors

The gross debtors book increased 14% to R8.7bn, with provisions growing 13%, resulting in a slight drop in the provision coverage ratio from 37.1% to 36.9%. However, we see no concern as the quality of the book has improved if measured by NPAs (non-performing accounts) that were down from 9.1% to 8% of the book and satisfactory paid accounts, that by value, increased from 76.9% to 77.4%, the highest in interim results history. Total arrears have remained flat at 25% of the book. Debit order use has risen from circa 56% of the book to 61%, with penetration rates unlikely to rise beyond 65% as debit orders are not used for self-employed customers and those outside of SA.

Credit quality has been retained despite growing customers by 9% to 745k. Decline rates have risen from 37.4% to 41.2% (its averaged 36.5% over the past 5-years), indicating that new customers remain of a high standard but are becoming more difficult to come by. Better quality customers are positive for future debtors' management - repeat business is around 45% of new sales. Collection rates declined from 79.5% to 78.3%, the same level as 2H25.

A further test for adequacy of provisions is to look at coverage levels across the arrears in the three categories (satisfactory paid, slow payers, non-performing) of the book. We assume that NPAs should be fully provided for as well as >3-month arrears in the other two categories (we define this as the problematic book). Total provisions provide 185% coverage (202% in FY25) of the problematic book. We have excess provisions of R1 446m which represents a general provision of 17% (19% in FY25) of the gross debtors book. A decline in economic overlay provisions from R517m in FY25 to R498m accounts for some of the decline. In the absence of IFRS 9 we would see a material decline in provisions and therefore a considerably lower debtors cost in the income statement.

In 1H26 provisions of R3 148m are adequate to cover:

- All the NPAs totalling R686m.
- All the arrears in Slow Payers – totalling R782m
- All the arrears in Satisfactory Paid – R875m

We therefore believe the book is adequately provided for.

UFO

Management remains committed to this business despite its ongoing underperformance. Whilst 2H25 showed some improvement the momentum was lost in 1H26 as a change in its marketing agency resulted in a temporary drop in exposure. A net 3 stores were closed in 1H26 bringing the store count to 35. With the rapid expansion of Real Beds, UFO now represents 37% of the Speciality number of stores (76% pre the Real Beds acquisition and expansion).

Real Beds

This business was acquired in 1H25 for R35.7m with 13 stores. It's currently at 44 stores with a further 15-20 stores to be added in 2H26E. It's an operation that started in Gauteng but is now expanding nationwide on a greenfield basis. It was acquired as a cash focused business targeting customers in LSM 4-10 categories. Recently credit has been offered to its customers that could see an acceleration in sales. Its market presence overlaps Beares by circa 75%. The group has significant purchasing power in bedding and therefore there is scope for considerable expansion given its competitive offering.

Competition

The proposed acquisition of Shoprite's SA furniture operations by Pepkor Holdings remains contested by Lewis on the ground of excessive market share (>50%) negatively impacting suppliers and consumers. This transaction was anticipated to be concluded at this stage – the non-SA assets have been acquired effective 1 October 2025. The transaction was initially approved by the competition authorities, only to be appealed by Lewis, which appeal was overturned. Lewis has now taken the matter to the Constitutional Court that will decide whether the transaction can proceed or be returned to the Competition Tribunal for further consideration. Filings have been made, and hearings should begin in January 2026.

Pepkor is an existing competitor that has not impacted Lewis's strong performance over the past few years. The transaction will, however, provide it with greater distribution and improved purchasing power that could impact Lewis's sales and GP margins. Lewis has 958 stores at 30 September 2025 compared to 925 for Pepkor – a successful transaction will add a further 334 stores making it a dominant operator. At this stage Pepkor has a low credit sales appetite with 13% of home and furniture sales on credit. It achieved 7.2% sales growth, 4.7% on a LFL basis, for the 12 months to 30 September 2025.

A successful acquisition by Pepkor will require some adaptation of the Lewis strategy. Its greater appetite for credit sales will continue to bode well in challenging trading conditions but GP margins may come under pressure as competition intensifies. The risk is a greater credit risk appetite from Pepkor, a trend already evidenced in FY25 with credit sales rising from 14% to 16% of group retail sales.

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