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Lewis Group

ANCHOR STOCKBROKERS

A robust FY26 result given the environment

- Lewis announced FY26 HEPS of 1753c, +18% and ahead of expectations of 1642c (+11%). As with FY25, earnings exceeded expectations due to higher GP and operating margins. This was achieved by taking advantage of ZAR strength and favourable shipping rates as well as a new product range that found favour with its customers. Tight cost management, as always, remains a key focus. A full year dividend of 897c was declared, up 12%, a consistent 55% payout ratio.
- The GP margin of 43.7% is a new high and a sharp recovery from 41% in 1H26. We take a more cautious view in FY27E given the macro deterioration that is negatively impacting local manufacturing inflation. With affordability already under immense pressure, as evident by credit decline rates rising from 38.5% to 41.8%, passing on higher input costs will be challenging in FY27E. Imported inflation is currently less likely to be problematic given ZAR strength.
- Merchandise sales rose 7.3% (credit sales +9.6% and cash sales +2.5%) with comparable store sales up 4.8%. LFL sales growth was 6% in 2H26, which compares favourably to PEPKOR Lifestyle's 3.6% over the same period. In this environment credit remains a key enabler of sales - Lewis has 69% credit sales vs PEPKOR at 13%. A record net 58 stores were opened in FY26, 36 in Real Beds with a net 3 closures in UFO. 40 new stores are to be opened in FY27E, bringing the footprint to circa 1016. We anticipate credit sales to exceed 70% of sales in FY27E and expect sales growth of 8% driven by the additional 11% store numbers since March 2025, 11% growth in customer numbers, traction in Real Beds and improved UFO sales.
- The debtors book grew 15% to R9.2bn on the back of strong credit sales over the past few years. This investment is benefiting finance and insurance income, which grew 16% and 17% respectively. As anticipated, the yield on the finance book has started to decline (from 24.1% to 23.9%) as a result of a 150bp decline in the repo rate since mid-2024. There is high forecast risk in predicting the trajectory of the decline – we forecast a 30bp decline in FY27E resulting in 12% growth in finance income. Insurance income is expected to grow at 11%, broadly in line with credit sales. Other revenue is 67% of total revenue (including cost of sales), an eight year high, impacting favourably on operating margins. We forecast total other revenue to grow 11.6% in FY27E (+15.7% in FY26).
- Credit quality remains high, but some deterioration has been seen in satisfactory paying customers (down from the highs) with NCA accounts rising. Cash collection rates have declined from 78.9% to 78.1%. Provision coverage rose from 37.2% to 37.7% as a consequence. With interest rates and inflation rising recently we are likely to see ongoing pressure in collections but take comfort from the very high levels of provisioning. A greater credit sales mix and lower collection rates will see another year of high growth in the debtors book, resulting in a further rise in debt levels. Management has increased its gearing (excl leases) target to 25-30% from <25% to accommodate the growth. Debt levels vary during the year – we forecast a manageable 25% gearing ratio in FY27E.
- The ongoing investment in the debtors book will continue to see a suspension in share buy backs. Management continues to guide to at least a 55% dividend payout ratio with the balance of cash generated invested in the debtors book and new stores. Group ROE is 17.2%, management targets 17.5% in the medium term.
- We forecast operating margins to rise from 24.9% to 25.3% in FY27E benefiting from strong other revenue growth, improved performance from Speciality and cost discipline. We revise our FY27E HEPS from 1846c to 1923c (+10%). The midpoint of our DFCF valuation rises from R98 to R107 per share. The stock trades on an attractive 12m fwd. P/E of 4.7x, an 11.7% dividend yield.

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Price (02/06/2026):	R90.50
Market cap	R4670mn
Shares in issue	51.6mn

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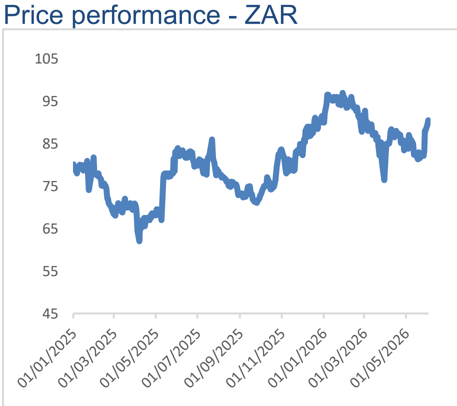
Price performance - ZAR



Source: FactSet

Figure 1 Financial summary - R'm

Year Ending	FY2024A	FY2025A	FY2026A	FY2027F	FY2028F	FY2028F
Income Statement						
Merchandise Sales	4,653	5,081	5,452	5,888	6,384	6,890
Sales growth (%)	*4.7%*	*9.2%*	*7.3%*	*8.0%*	*8.4%*	*7.9%*
Gross profit	2,006	2,207	2,382	2,503	2,713	2,935
growth %	*11.1%*	*10.0%*	*7.9%*	*5.1%*	*8.4%*	*8.2%*
GP margin %	*43.1%*	*43.4%*	*43.7%*	*42.5%*	*42.5%*	*42.6%*
Finance income	1,655	2,047	2,383	2,678	2,936	3,182
growth %	*24.0%*	*23.7%*	*16.4%*	*12.4%*	*9.6%*	*8.4%*
Insurance income	986	1,181	1,378	1,536	1,672	1,796
growth %	*15.4%*	*19.8%*	*16.7%*	*11.4%*	*8.8%*	*7.4%*
Ancillary income	891	979	1,106	1,216	1,317	1,408
growth %	*8.0%*	*9.9%*	*13.0%*	*10.0%*	*8.3%*	*6.9%*
Total other revenue	3,531	4,207	4,868	5,430	5,925	6,385
growth %	*17.2%*	*19.1%*	*15.7%*	*11.6%*	*9.1%*	*7.8%*
Total revenue	8,184	9,288	10,320	11,319	12,308	13,275
growth %	*9.8%*	*13.5%*	*11.1%*	*9.7%*	*8.7%*	*7.9%*
Debtors costs	1,225	1,193	1,310	1,464	1,590	1,685
growth %	*70.3%*	*-2.6%*	*9.8%*	*11.7%*	*8.6%*	*6%*
% of gross debtors	*17.6%*	*15.0%*	*14.3%*	*14.0%*	*13.8%*	*13.8%*
EBITDA	1,124	1,548	1,789	1,916	2,099	2,271
EBITDA Margin (%)	*24.2%*	*30.5%*	*32.8%*	*32.5%*	*32.9%*	*33.0%*
EBIT	690	1,152	1,300	1,493	1,649	1,792
EBIT Margin (%)	*14.8%*	*22.7%*	*23.8%*	*25.3%*	*25.8%*	*26.0%*
Recurring EBIT	754	1,166	1,355	1,493	1,649	1,792
Recurring EBIT Margin (%)	*16.2%*	*22.9%*	*24.9%*	*25.3%*	*25.8%*	*26.0%*
Profit before tax	591	984	1,135	1,321	1,452	1,608
Net profit	437	755	854	994	1,092	1,208
Net profit post minorities	437	755	854	994	1,092	1,208
Headline Earnings	501	768	909	994	1,092	1,208
% growth	*-1.8%*	*53.3%*	*18.4%*	*9.3%*	*9.9%*	*10.6%*
Basic EPS (ZAc)	808	1,457	1,645	1,923	2,109	2,329
Headline EPS (ZAc)	926	1,483	1,753	1,923	2,109	2,329
% growth	*7.3%*	*60.1%*	*18.2%*	*9.7%*	*9.7%*	*10.4%*
DPS (ZAc)	500	800	897	1,058	1,160	1,281
Payout ratio (%)	*61.9%*	*54.9%*	*54.5%*	*55.0%*	*55.0%*	*55.0%*
Balance Sheet						
Cash and Cash equivalents	224	175	161	179	169	187
Current asset (ex – cash)	5,547	6,459	7,224	8,092	8,840	9,512
Net Fixed assets	442	467	482	521	566	616
Intangible assets	110	127	108	110	112	114
Investments	243	160	182	225	267	311
Other assets	967	1,052	1,001	1,058	1,114	1,175
Total assets	**7,533**	**8,440**	**9,159**	**10,185**	**11,068**	**11,915**
Debt	426	1,055	42	0	0	0
Current liabilities	1,217	1,452	1,461	1,590	1,709	1,826
Other liabilities	1,188	854	2,171	2,518	2,634	2,614
Total liabilities	**2,831**	**3,362**	**3,674**	**4,109**	**4,343**	**4,441**
Shareholders' equity	4,703	5,078	5,486	5,960	6,475	7,065
Minorities	0	0	0	0	0	0
Total shareholders' equity	**4,703**	**5,078**	**5,486**	**5,960**	**6,475**	**7,065**
BVPS (ZAR)	*8,890*	*9,861*	*10,622*	*11,528*	*12,499*	*13,613*
ROE (%)	*10.7%*	*15.7%*	*17.2%*	*17.4%*	*17.6%*	*17.8%*

Year Ending	FY2024A	FY2025A	FY2026A	FY2027F	FY2028F	FY2028F
Cash Flow						
Reported net profit	**437**	**755**	**854**	**994**	**1,092**	**1,208**
Change in net working capital	-1,021	-1,055	-1,300	-1,140	-991	-867
Dividends paid	-224	-310	-436	-519	-577	-617
Other adjustments	1,043	865	1,027	1,437	1,490	1,520
Cash flow from operations	**235**	**255**	**146**	**771**	**1,014**	**1,243**
Net Capex	-118	-123	-121	-147	-160	-172
Capex/sales (%)	*2.5%*	*2.4%*	*2.2%*	*2.5%*	*2.5%*	*2.5%*
Other investing cash flows	41	-39	32	-4	-4	-4
Cash flow from investing	**-77**	**-162**	**-90**	**-151**	**-164**	**-177**
Equity raised/(bought back)	-222	-120	-78	0	0	0
Net inc/(dec) in LT borrowings	350	-350	1,350	258	70	-70
Other financing cash flows	-247	330	-1,346	-866	-935	-986
Cash flow from financing	**-116**	**-137**	**-70**	**-602**	**-859**	**-1,049**
Net cash flow	**41**	**-44**	**-14**	**17**	**-9**	**17**
Free cash flow	**-169**	**142**	**87**	**301**	**588**	**831**
Repayment of lease liabilities	**-303**	**-297**	**-328**	**-342**	**-352**	**-362**
Net free cash flow	**-472**	**-155**	**-241**	**-40**	**236**	**469**
Valuation Summary						
Valuation Metrics						
Share Price (ZAc)	4,350	7,090	9.050	9,050	9,050	9,050
P/E (Underlying) (x)	4.7	4.8	5.2	4.7	4.3	3.9
P/BV (x)	0.5	0.7	0.9	0.8	0.7	0.7
EV/Sales (x)	1.4	1.3	1.2	1.1	1.0	1.0
EV/EBITDA (x)	5.9	4.3	3.7	3.5	3.2	2.9
EV/EBIT (x)	9.6	5.8	5.1	4.5	4.1	3.7
FCF Yield (%)	-10.2	-3.3	-5.2	-0.9	5.0	10.0
Dividend Yield (%)	11.5	11.3	9.9	11.7	12.8	14.2

Net debt	1492	1857	2194	2492	2628	2598
Gearing ratio	0.32	0.37	0.40	0.42	0.41	0.37
Net debt (excluding lease liabilities)	551	880	1231	1471	1551	1463
Gearing ratio (excluding lease liabilities)	0.12	0.17	0.22	0.25	0.24	0.21

Source: Company data, FactSet, ASB estimates

Merchandise Sales

Merchandise sales grew 7.3%, with Tradional stores faring better with 7.5% compared to Speciality at 5.4%. Speciality is 10.3% of total sales. UFO continues to struggle given affordability constraints, as evidenced by cash sales rising 2.5%. Furniture remains the dominant category at 58% of sales followed by appliances at 28% and audio visual at 14%.

Credit sales grew from 68% to 69.4% of total sales and is likely to rise above 70% in FY27E as cash sales remain under pressure. We forecast an improvement in sales in FY27E as the net new 58 stores contribute fully and a further 40 stores are opened. In addition, the customer base has grown 11%.

Operations outside of SA that comprise 14.6% of total revenue grew revenue 7.1%, dragged down by a poor performance from Botswana given a subdued economic climate. Namibia achieved 10% revenue growth.

Margins

Recurring operating margins have risen from 16.2% in FY24 to 25.3% in FY26. This robust performance has been supported by GP margins reaching new highs and other revenue from 64% to 67% of total revenue (including cost of sales). Operating costs, excluding depreciation and insurance expenses, grew 9.6% compared to revenue growth of 11.1%. This was despite staff costs growing 12%, inflated by incentives and commissions. Total operating costs rose 12.7%, ahead of the 7-11% target for FY26 – this has been negatively impacted by additional stores, an enhanced collections team, additional marketing spend in UFO and higher insurance claims due to loss of employment. It's important to note that while insurance earnings are negatively impacted, it benefits write offs. These cost trends are likely to remain in place in FY27E, but management has reiterated a 7-11% cost growth target with 6-10% in the medium term.

We still believe that there is scope for margins to widen in FY27E despite some pressure on GP margins. In FY17 other revenue represented 73% of total revenue and the operating margin was 25.3%. Management is targeting 18-22% in FY27E and the medium term, this is up from 16-20% signalling confidence that the margin can improve further. We forecast 25.3% in FY27E.

Forecast risk for the GP margin is high and any surprise can have a meaningful impact – a 1% change equates to a 4.3% move in HEPS.

The outcome of Pepkor Holdings 'proposed acquisition of Shoprite's furniture businesses, OK Furniture and House & Home, which is currently with the Competition Tribunal, may have an impact on market conditions going forward, impacting GP margins. We note that the two business are mature and have been competitors for many years but synergies from the merger could make them more competitive on pricing. This combined with an increase in credit risk appetite (Pepkor is only at 13% credit sales) are potential future risks for Lewis. Should this transaction proceed, the timing is likely to be after July 2026.

Other revenue

Other revenue growth has slowed given a robust performance in the prior two years. Growth of 15.7% remains impressive but is likely to decline in FY27E as the largest category, finance income, will slow in growth as the yield on the debtors book declines as a result of declining interest rates since mid -2024. The recent Repo hike of 25bp and a further likely hike of another 25bp would have a positive impact on finance income, particularly if the additional 50bp prevails during Black Friday. Despite this the yield is anticipated to decline in FY27E and FY28E – we forecast finance income to grow 12.4% and 9.6% respectively.

Insurance income growth will follow that of credit sales which we have at 9.7% in FY27E, in line with FY26. Ancillary income growth more closely matches the growth in customers which was 11% in FY26. We forecast customer growth of 9% given higher decline rates in FY27E.

Overall, we forecast other revenue growth of 11.6% and 9.1% in FY27E and FY28E. Forecast risk remains high in determining the forward yield on the debtors book and hence growth in finance income.

Debtors Book

The gross debtors book increased 15.2% to R9.2bn, whilst provisions grew 16.9%, resulting in the coverage ratio rising from 37.2% to 37.7%. 2H26 saw some deterioration in the quality of the book from its highs. Collection rates declined from 78.9% in FY25 to 78.1% and arrears increased from 23.4% (a record low) to 25.4% with satisfactory paid accounts declining from its high of 83.5% in FY25 to 82.6%. These trends are likely to continue as macro conditions deteriorate given the conflict in the Middle East. We forecast the debtors charge as a % of the debtors book to decline slightly from 14.3% to 14.2% in FY27E, reflecting 11.7% growth. Management is targeting a ratio of 13-16% in FY27E, 12-15% in the medium term.

We take comfort from the high provision coverage and the fact that decline rates are at all-time highs suggesting that quality customers are being prioritised. Arrears management also remains effective with bad debts written off declining from R919m to R904m, despite arrears deterioration. Bad debt recoveries also rose from R79m to R94m. With credit quality deteriorating from 1H to 2H momentum could continue and therefore we caution there may be upside risk to our debtors cost charge.

To test for adequacy of provisions we 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 180% coverage (202% in FY25) of the problematic book. We have excess provisions of R1533m (R1493m in FY25) which represents a general provision of 17% (19% in FY25) of the gross debtors book.

In FY26 provisions of R3459m are adequate to cover:

- All the NPAs totalling R829m.
- All the arrears in Slow Payers – totalling R826m
- All the arrears in Satisfactory Paid – R961m

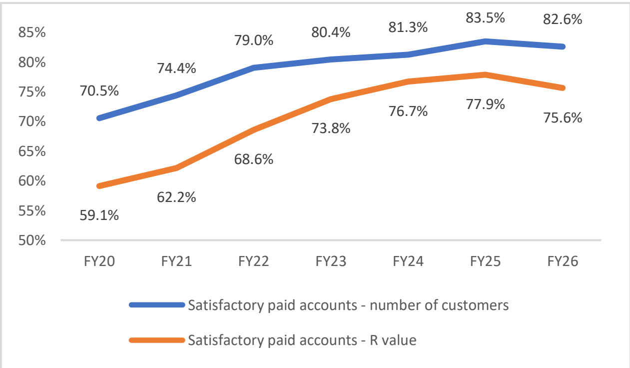
We therefore believe the book is adequately provided for.

Figure 2 Profile of the debtors book

	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Total arrears % of gross book	37%	36%	33%	28%	25%	23%	25%
Provisions as a % of book	44.1%	42.6%	40.4%	36.0%	37.5%	37.2%	37.7%
Provisions as a % of arrears	120%	118%	122%	129%	153%	159%	148%
Charges as a % of average debtors	17.9%	14.2%	12.3%	12.3%	18.9%	16.0%	15.3%
Satisfactory paid accounts - number of customers	70.5%	74.4%	79.0%	80.4%	81.3%	83.5%	82.6%
Satisfactory paid accounts - R value	59.1%	62.2%	68.6%	73.8%	76.7%	77.9%	75.6%

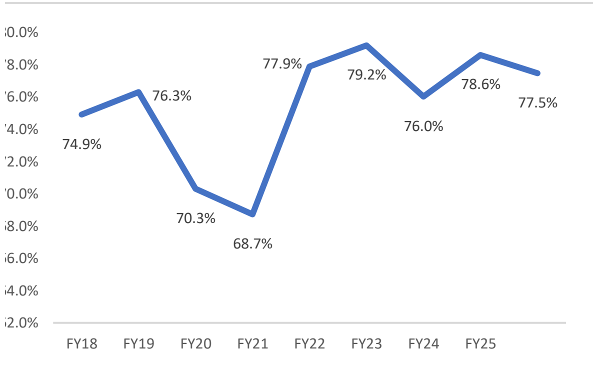
Source: Company data, ASB estimates

Figure 3 Satisfactory accounts



Source: Company data, ASB Research

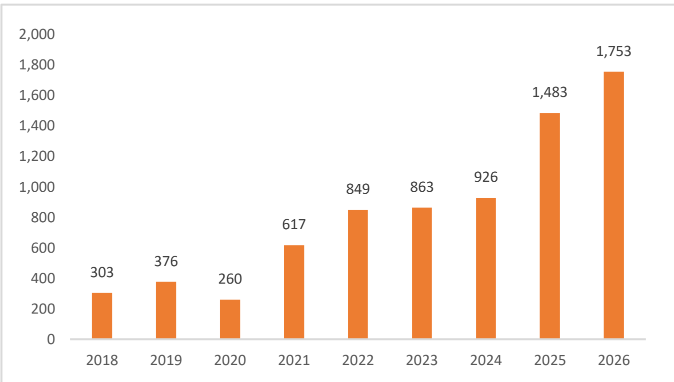
Figure 4 Collection rates remain elevated



Source: Company data, ASB Research

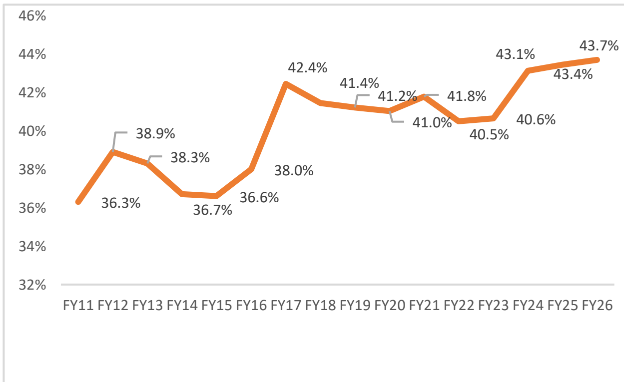
Financials

Figure 5 Consistent HEPS growth (cents)



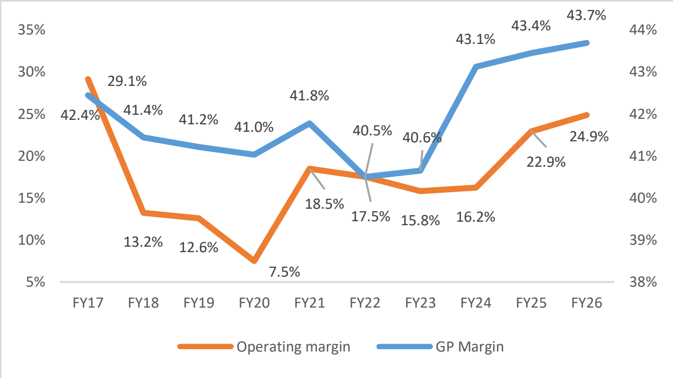
Source: Company data, ASB Research

Figure 6 GP margin – new highs



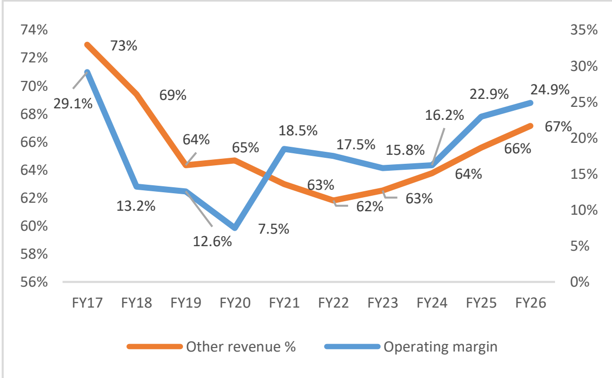
Source: Company data, ASB Research

Figure 7 Recurring operating vs GP margin



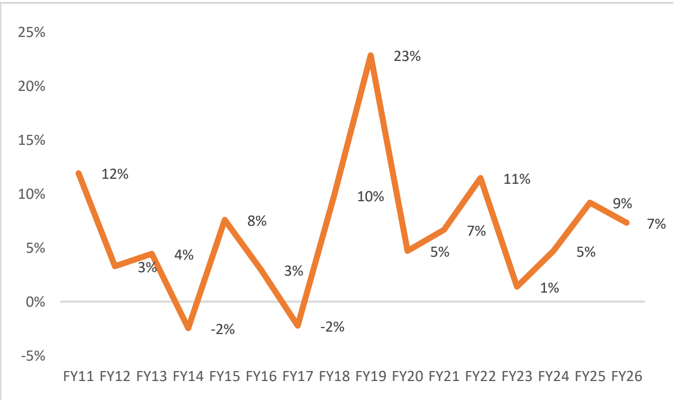
Source: Company data, ASB Research

Figure 8 Other revenue benefiting margins



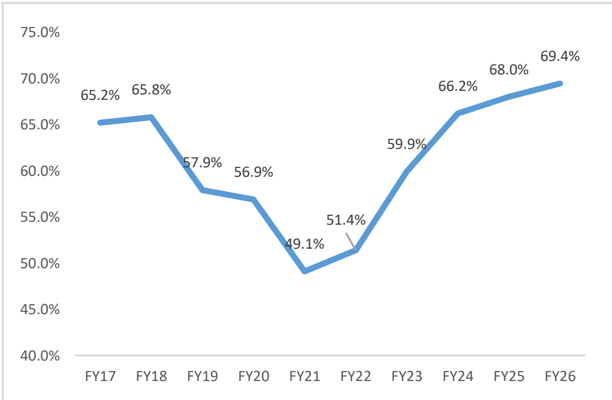
Source: Company data, ASB Research

Figure 9 Merchandise sales growth



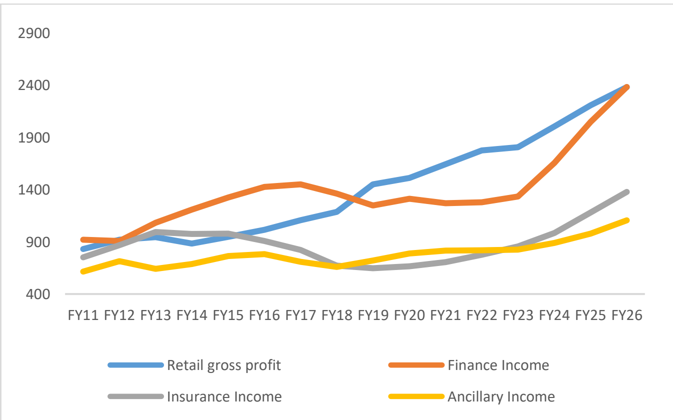
Source: Company data, ASB Research

Figure 10 Credit sales as % of total sales



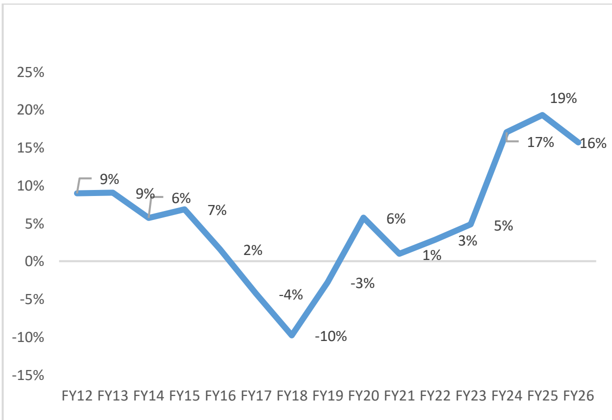
Source: Company data, ASB Research

Fig 11 Revenue trends – benefiting from credit sales



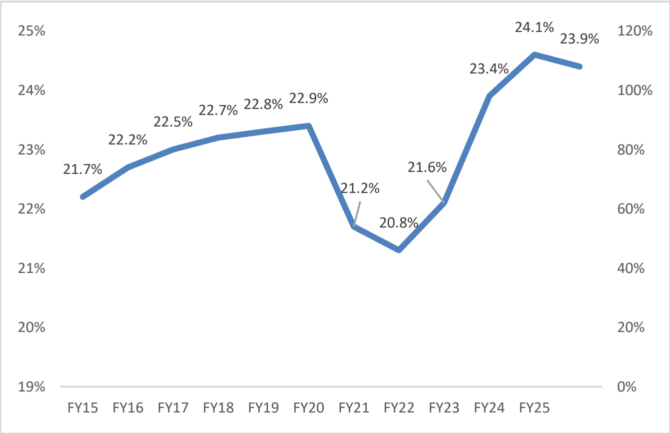
Source: Company data, ASB Research

Figure 12 Other revenue growth rates



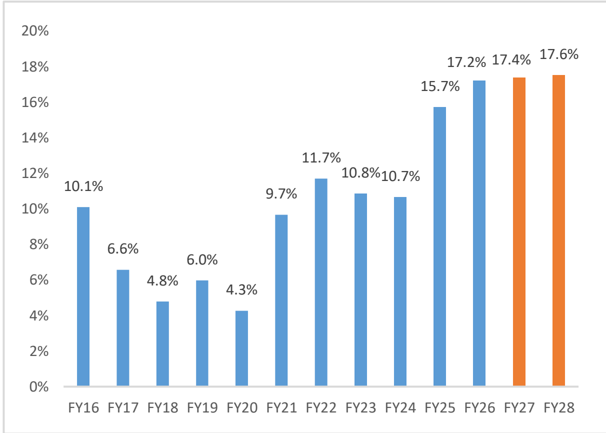
Source: Company data, ASB Research

Figure 13 Yield on debtors book has peaked



Source: Company data, ASB Research

Figure 14 ROE- Management targets 17.5%



Source: Company data, ASB Research

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