Lewis Group – 3Q trading update

Date: 27 January 2022

Key message: *Revenue growth in line with FY22E forecasts. Debtor costs improve considerably. No changes to HEPS outlook.*

- Lewis announced a strong trading update for the nine months to December 2021 – merchandise sales grew by 12.7% compared to the same period the prior year. Comparable stores sales grew by 10.3%. Black Friday sales remained robust, supporting 3Q sales growth of 3.6% on the comparative period. 3Q21 saw abnormally strong Black Friday sales following lockdown (+16.6%), therefore growth of 3.6% off this base is impressive. 3Q22 sales were up 20.7% on 3Q20. Sales growth is currently running ahead of our 10.3% forecast for FY22E.
- Credit sales are recovering strongly (+16%) as anticipated given the higher level of cash transacting during COVID-19 in the prior year when consumer liquidity was boosted. Growth is broadly in line with our 15% growth in FY22E.
- Other revenue (finance income, insurance income and ancillary services) achieved modest growth of 1.3% for the nine months. This is below our growth estimate of 4.6% for FY22E. We do, however, anticipate a growth recovery in 4Q following stronger credit sales and the repo rate hike in November 2021 (and potentially later today).
- Total revenue has grown 8% in the nine months which is in line with our FY22E forecast.
- The quality of the debtors book continues to improve, as envisaged. Debtor costs are down 20.5% for the nine-month period. We are forecasting an 18% decline for FY22E. Collection rates rose to 79.7% in 3Q22 (75.6% in 3Q21).
- With the trends broadly in line with our FY22E estimates, we see no reason to amend our earnings forecast for FY22E. A greater decline in debtors costs provides some comfort. 4Q is a slower revenue period for Lewis, certainly compared to 3Q.
- We anticipate modest headline earnings growth of 6% and 11% in FY22E and FY23E impacted by a low repo rate, a depressed cost base in FY21 and store interruptions due to COVID-19 and civil unrest (to date R68.6m of claims has been received from a total of R78.8m). Post the buyback it translates into HEPS growth of 24% and 23%. This puts the stock on an attractive 16-month forward PE of 5x. We value the stock on a DFCF basis, deriving a fair value range of R65.68 to R72.75.

ZARmn (to March)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,280	4,437	4,670	5,089	5,658
EBITDA	629	1,039	1,155	1,288	1,428
Normalised earnings	205	463	493	547	610
Normalised HEPS (ZAc)	260	617	764	935	1,119
PE Ratio	6.8	7.5	6.1	5.0	4.2
Dividend (ZAc)	185	328	420	514	615
Dividend yield	10.4%	7.1%	9%	11.0%	13.1%

Source: Company data, Chronux Research estimates

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Price (27/01/2022):	R46.90
Market cap	R3095m
Shares in issue	66mn

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