

Warpaint London

Consumer
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World of Warpaint

Warpaint London is a creative design-focused cosmetic brand proposition delivering high-quality cosmetics at affordable prices. Its focus is to develop its flagship brand, W7, while capitalising on the growth potential of e-commerce and international expansion. Consensus forecast revenue growth is underpinned by the implementation of the e-commerce strategy and broadening of international operations.

Fourfold strategy

Warpaint's strategy to grow focuses on the continuing development of the W7 brand. The disruptive potential is the ability to move from idea to market in 3-5 months, which is beyond the capability of larger cosmetics houses. W7 is an innovative, design-focused brand proposition, predominantly selling to high street retailers and independent beauty shops. A global growth strategy sees it now in 56 countries, with key focus on the US and China. Additionally, the online channel is a growing contributor to revenue and highlights the scope for further sales growth. Management is also progressing opportunities for other brands such as Taxi.

International ambitions in colour cosmetics

The colour cosmetic market is valued at c \$52bn according to a global industry study and forecasts suggest this will rise to \$80bn by 2026, a CAGR of 4.8%. Warpaint aims to build internationally recognised brands, starting with W7. Exports of W7 are 58% of revenue as UK dependence reduces. By enhancing distribution and marketing platforms to incorporate social media and e-commerce, the offering should become more widely available to an international audience. W7 has recently launched a new range of 'Very Vegan' cosmetics, which has shown encouraging sales traction. In addition to other brands, including Outdoor Girl, it has a close-out division, which buys and sells close-out and excess stock of branded cosmetics.

Valuation

Warpaint's joint CEOs have been working together for 25 years and have deep experience of their market. The own-brand division (83% of revenue) enjoyed over seven years of revenue growth before IPO, and consensus forecasts are for meaningful revenue and profit growth to continue. At interim, PBT before plc costs rose 6% but with a strong Christmas order book, consensus expects FY17 PBT to grow 13% inclusive of plc costs in 2017. Warpaint's progressive dividend policy is reflected in the forecasts, with dividends per share increasing y-o-y from FY16 to FY18. Net cash of £3.5m in FY16 is expected to grow to £7.0m in FY17.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15*	22.3	5.4	6.9	N/A	31.5	N/A
12/16*	27.0	6.7	8.6	1.5	25.3	0.7
12/17e	30.2	7.6	9.4	4.0	23.1	1.8
12/18e	35.8	9.5	12.0	5.0	18.1	2.3

Source: Company results, Stockdale Securities. Note: *Pro forma incl. CloseOut business.

Price **217.5p**
Market cap **£140m**

Share price graph



Share details

Code W7L
 Listing AIM
 Shares in issue 64.5m

Business description

Warpaint London is a UK-based company engaged in the colour cosmetics business both domestically and overseas. It floated on AIM in November 2016. Warpaint has two divisions: close-out and own-brand. The latter consists primarily of the company's flagship brand, W7, which remains the key focus of Warpaint.

Bull

- Fast-growing industry with broad customer base.
- Strong trade relationships through close-out history and brand reputation with W7.
- Positioned in an industry that has demonstrated resilience to economic cycles.

Bear

- Dependence on key personnel, as a result of a relatively small senior management team (although management structure has been strengthened since IPO).
- Risk of litigation, specifically with product liability.
- Rapid international growth carries execution risk.

Analysts

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