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SuperGroup

Consumer

10 November 2017

Supercharged

A reassuring trading update confirms that SuperGroup continues to deliver attractive top-line growth. Admittedly, the superior wholesale performance means (as previously flagged by the company) that there is likely to be some gross margin erosion, but the focus on operational leverage should still ensure a modest improvement in operating margins going forward. Management's commercial and pragmatic approach to expansion should mean continued success as the brand rolls out beyond its core markets of the UK and continental Europe.

Solid trading update

Although only revenue is reported at this stage (full interims will be published in January), the company's message is that it is on track to meet half and full year profit expectations. The company reported revenue growth of 20.4% (17% at constant FX) to £402m. Retail revenue grew 12.8% and wholesale revenue was up an impressive 34% (there was some benefit from early deliveries here, which will probably be reversed in H2). The negative news is that like-for-like retail sales growth has slipped from 9.3% in Q1 to 3.7% in Q2. However, it is worth noting that Q1 was disproportionately flattered by FX translation and that the company is sticking with existing profit guidance, which would imply that it is not seeing any material deterioration. Brand momentum remains strong and this is clearly encouraging new and existing franchise and wholesale partners to invest in it.

Focus on operational leverage

Despite the expected 170bp decline in the gross margin (arising from the channel mix shift to wholesale as well as raw material cost inflation), management is still expecting modest improvement at the operating profit level and has maintained H1 PBT guidance of £25-26m. This is largely due to the company's focus on efficiency gains, both at the front end (eg increasing store productivity through staff rota changes and enabling seamless online/offline stock movement in Europe) and at the back end (eg improved distribution centres and new order management system for e-commerce).

Valuation

We believe that significant changes to consensus estimates are unlikely. The shares have performed strongly in recent weeks and now trade on a prospective P/E of 19.3x. Although this may seem a little stretched we would point out that the company is growing at a superior rate to the market and to other apparel retailers. We suggest that the combination of superior earnings growth and strong balance sheet (net cash of £65m at end FY17) remains compelling.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
04/17	752	87.0	84.5	28.0	21.8	1.5
04/18	865	98.8	95.3	32.1	19.3	1.7
04/19e	976	115.1	109.8	37.7	16.8	2.0
04/20e	1087	131.6	124.2	43.6	14.8	2.4

Source: Bloomberg

Price	1,841p
Market cap	£1,502m

Share price graph

Share details

Code	SGP
Listing	LSE
Shares in issue	81.58

Business description

SuperGroup trades globally through the Superdry brand, a lifestyle brand that targets a relatively young (teenage upwards), fashion-aware customer. Retail represents 60% of sales (25% of this is digital) and wholesale 40%. The UK and Europe account for c 85% of sales.

Bull

- Clear brand positioning; strong brand momentum and digital performance.
- Opportunity to grow in the US and Asia.
- Track record of strong cash generation.

Bear

- Gross margin under pressure from shift in channel mix and raw material inflation.
- Q2 decline in like-for-like sales growth at owned stores is concerning.
- Risk of founder selling down.

Analysts

Richard Lewis Jones +44 (0)20 3077 57 00

Paul Hickman +44 (0)20 3077 57 00

consumer@edisongroup.com

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia