

Bonmarché Holdings

Consumer
3 May 2018

FY PBT in line despite tough Q4

Bonmarché's 52-week trading update has confirmed that it will deliver FY PBT in line with the board's expectations. FY sales were down 0.5%, reflecting both a tough H2 comparison and difficult trading conditions in Q4, as has been seen more widely in the UK clothing market. Gross margins proved resilient despite FX headwinds, which suggests that the company has plenty of scope for self-help. We expect consensus forecasts to remain unchanged following the FY trading update on 20 April.

What's new?

Although difficult trading conditions in UK clothing have resulted in sharply reduced Q4 sales, the company is showing resilience in delivering full year PBT in line with internal expectations, underpinned by the strategy outlined at the FY17 results. Online sales have been strong, up 34.5% over 52 weeks and up 31.2% even in Q4 on a q-o-q basis. Full year profitability is assisted by stable gross margins even in the face of FX headwinds. This has been achieved by better buying and reduced markdowns. In addition, the company has delivered operating cost savings through improved operational efficiencies and reduced, but more effective marketing spend.

What are the implications?

While it is still early days for the company under CEO Helen Connolly (who joined in August 2016), there are clear signs that the strategy is bearing fruit. Market share was up at the half-year stage and see no reason to believe that this has changed; trading was down across the whole UK clothing sector in Q4, not just at Bonmarché. Given the robust balance sheet, we have confidence in the FY dividend which, at a yield of 8%, could be enough to interest new investors.

Consensus estimates likely to remain unchanged

The company has stated that it expects FY PBT in line with internal expectations, so we expect 2018 consensus to remain unchanged. As much of the disruption in the UK clothing sector in Q4 was weather-related rather than a momentum shift in consumer spending, we expect no change to consensus for 2019 and beyond.

Valuation

Bonmarché's low valuation relative to the retail sector (P/E of 8.0x 2018e earnings vs 12.7x for the sector) is indicative of low investor confidence following the troubles of recent years. Bonmarché's P/E falls to just 6.6x in 2019e, with the shares set to yield 7.5%. Continued delivery vs expectations could see the discount begin to close.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/17	190.0	6.3	9.9	7.1	10.0	7.2
03/18e	189.0	7.8	12.4	7.2	8.0	7.3
03/19e	200.5	9.5	15.0	7.4	6.6	7.5
03/20e	210.0	10.8	17.1	7.6	5.8	7.7

Source: Bloomberg

Price 99p
Market cap £48m

Share price graph



Share details

Code	BON
Listing	LSE
Shares in issue	48.3m

Business description

Bonmarché is one of the UK's largest women's value retailers selling clothing and accessories to mature women. The company has a multi-channel approach selling via more than 300 UK stores, website and mail order catalogues.

Bull

- Evidence of continued market share gain.
- Stable gross margin and cost control support positive earnings outlook.
- Attractive dividend yield of 8.0% looks well supported by robust balance sheet.

Bear

- Lack of scale leaves company vulnerable to competition at the value end of the market.
- Further FX swings could put pressure on gross margins.
- Consumer sentiment could weaken if there are further interest rate rises.

Analysts

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