

# Cake Box Holdings

**Retail**
**10 December 2018**

## Plain vanilla

What is rare about Cake Box's investment case is that it is a unique concept which is also low-tech. The simplicity of the retail offer and of the franchise formula, management's track record, the ungeared balance sheet, as well as continuing current like-for-like growth despite depressed consumer sentiment and macro uncertainty, all argue for lower execution risk in the straight-line growth proposition.

## A straightforward franchised convenience roll-out

Cake Box was founded by Sukh Chamdal, a food industry professional, in 2008. It expanded steadily as a retail franchise and now has 105 stores, opening an average of 18 over the last three years. Product is prepared at a central bakery in Enfield (a second is planned in Bradford), with cakes assembled and finished in-store. Product buying margin is the main source of franchisor revenue. The retail offer is based on convenience, and the in-store model is significantly de-skilled. The franchise proposition is a £125,000 investment with average payback of 18 months.

## What are the implications? More of the same

With a differentiated retail offer and a scalable business plan, CBOX is well placed to continue linear growth. Following its June 2018 IPO, it has posted interim PBT growth of 34% to £2.0m and EPS growth of 36% to 4.4p, with a maiden interim dividend of 1.2p. Continued roll-out should result in economies of scale including purchasing leverage and utilisation of central costs, currently 20% of revenue.

## Market estimates: Starting to look soft

Market forecast is for PBT growth of 18% to £4.0m for the year to March 2019. This does not look demanding, with £2.0m already achieved at interim, despite the hot summer, and with the Christmas period still ahead, as well as continuing estate expansion. In FY18, second half sales were 22% higher than the first half. Free of leases, the balance sheet is ungeared with September 2018 net cash of £0.8m.

## Valuation: Priced for growth

The shares have gained 61% since the June 2018 IPO and are trading at a June 2019 P/E of 21.4x at a 2% P/E premium to Greggs (20.9x), and a 40% premium to Domino's Pizza (15.3x) calendarised to the same date. However, compound average earnings growth for the two years to June 2019 is 20.7% compared with 4.5% and 5.7% respectively.

### Broker estimates

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	8.7	1.9	N/A	N/A	N/A	N/A
03/18	12.8	3.4	7.0	N/A	N/A	N/A
03/19e	17.0	4.0	8.1	3.6	21.4	2.1
03/20e	20.1	5.1	10.2	4.6	17.0	2.7

Source: Shore Capital

**Price** 174p  
**Market cap** £70m

### Share price graph



### Share details

Code	CBOX
Listing	AIM
Shares in issue	40.0m

### Business description

Cake Box is a franchised retailer of cakes with a growing store base across the UK. It offers an extensive range of fresh cream cakes including personalised cakes. Its products are egg free, which gives them access to a market among customers who cannot eat eggs for religious or dietary reasons.

### Bull

- Differentiated convenience-based concept.
- Scalable uncomplicated franchise model.
- Proven track record and experienced management.

### Bear

- Untested on public markets.
- Execution risk of a high-growth plan.
- Liquidity risk with free float of 49%.

### Analysts

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