

27 October 2020

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Adairs Limited (ADH)

Retail

HOLD

ADH A\$3.86

TARGET PRICE A\$3.78

Adairs Limited operates as a leading retailer of home decoration and home furnishing with over 160 stores across Australia and New Zealand. The company sell homewares, bedding, towels, soft furnishing, children's furniture, and occasional furniture through its Adairs, Adairs Homemaker, Adairs Kids and Urban Home Republic branded stores.

Company Data

Number of shares (M)	169.1
Market Capitalisation	\$ 652.6M
Free float (%)	68.2
12-month high/low	\$4.2/\$0.5
Average Daily Turnover (\$m)	1.66
% S&P/ASX200	0.04%
DDM Ranking	294
% All Ordinaries	0.03%
GICS Industry Group	Retail

Source: FactSet, Barclay Pearce Capital

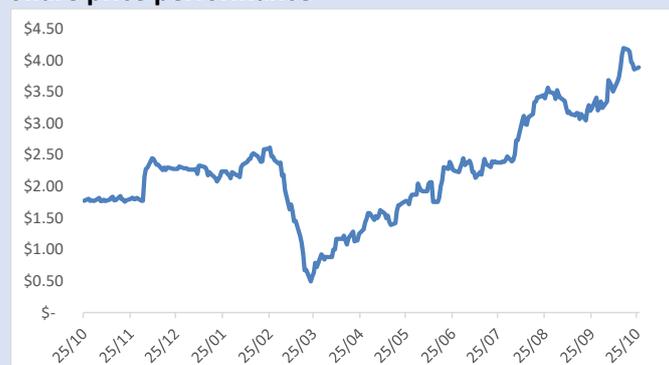
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	359.9	447.8	493.3	527.8
Reported NPAT (\$M)	35.3	45.5	48.3	51.8
Adjusted NPAT (\$M)	35.2	45.9	48.3	51.8
Reported EPS (c)	21.0	25.3	27.0	29.2
Adjusted EPS (c - FD)	21.0	26.4	28.1	30.4
Adjusted EPS growth (%)	17.3	25.9	6.3	8.1
Adjusted P/E (x)	18.4	14.6	13.7	12.7
Dividend (c/sh)	11.0	16.8	20.6	21.9
Gross yield (%)	4.1	6.1	7.4	7.9
Net yield (%)	2.8	4.3	5.2	5.5
ROIC (%)	24.8	28.8	29.7	29.7

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Trading Update for 1QFY21

Ahead of its Annual General Meeting, Adairs (ADH) has provided a trading update for the first 17 weeks of FY21, ending 25 October 2020 with the following highlights:

- Sales in this period have remained elevated across all channels and are well ahead of the same period last year, despite 43 stores in the Melbourne Metropolitan area being affected by COVID-19 government restrictions since 6 August 2020 (11.5 weeks of the period);
- Unaudited sales for 1QFY21 have also been reported:
 - Online sales represented 41% of total sales (comprising Adairs online 32% and Mocka 9%) versus 17% for the same period last year
 - ADH store sales in the first 17 weeks has decreased 0.6% pcp.
 - Like for like sales growth across Adairs stores has been adjusted for Greater Melbourne store closures has increased by 17% pcp.
 - ADH online sales have increased by 134% pcp.
 - Unaudited total Adairs sales for the first 17 weeks of FY21 are up 22% pcp.
- Online sales represented 41% of total sales (comprising Adairs online 32% and Mocka 9%) versus 17% for the same period last year;
- Gross margins are well above prior year levels and remain an area of focus for management, with the continuation of pricing and sourcing initiatives outlined with FY20 results;
- Underlying trading gross margin for Adairs for 1Q21 is approximately 600bps higher than the same period last year;
- Management anticipate that gross margins will moderate from current levels over the balance of FY21 as restricted are lifted, but are expected to remain above FY20 levels;
- Inventory levels are now coming into line with last year and will be in a good position to support stores through the key November/December trading period;
- Costs continue to be well controlled with the business investing in marketing to drive new customer acquisition.

CEO and Managing Director Mark Ronan stated "I am pleased that the momentum seen in the second half of FY20 has continued into FY21. These results highlight the strength and continued success of our brands, supported by our omni channel strategy and operational agility".

Earnings changes

ADH has announced their update on 1QFY21, highlighting a revenue growth of 22%, which is slightly lower than market expectations of 25%. The expected increase in gross margin was 4% for 1QFY2021, however, ADH reported an increase in gross margin of 6%. Thus, we have made positive earnings revision of 2.0-3.0% for FY21 and future periods.

We are initiating on ADH with a 12-month price target of \$3.78 and a HOLD recommendation. The price target is underpinned by our DDM Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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