

24 January 2022

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

## Dusk Group Ltd

Consumer Cyclical

BUY

DSK A\$2.82

TARGET PRICE A\$4.42

Dusk Group Limited is an Australian-based specialty retailer of home fragrance products, including candles, reed diffusers, essential oils, electronic diffusers and air purifiers, and fragrance related homewares.

### Company Data

Number of shares	62.3.0 M
Market Capitalisation	\$175.6 M
Free float (%)	50.6
12-month high/low	\$4/\$2.21
Average Daily Turnover (\$m)	0.347730
% S&P/ASX200	0.009%
DDM Ranking	103
% All Ordinaries	0.007%
GICS Industry Group	Retailing

Source: FactSet, Barclay Pearce Capital

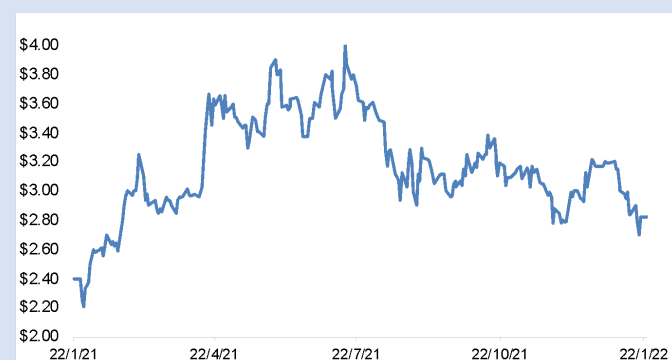
### Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	148.6	148.9	177.7	195.2
EBITDA (\$M)	41.4	31.7	37.5	41.4
Reported NPAT (\$M)	21.9	19.5	23.2	26.1
Adjusted NPAT (\$M)	26.8	19.7	23.2	26.1
Adjusted EPS (¢ - FD)	43.1	30.8	35.2	39.2
Adjusted EPS growth (%)	77.4	-28.6	14.4	11.4
Adjusted P/E (x)	6.5	9.2	8.0	7.2
Dividend (¢/sh)	25.0	23.0	24.9	28.1
Gross yield (%)	12.7	11.6	12.6	14.3
Net yield (%)	8.9	8.1	8.8	10.0
ROIC (%)	300.1	66.9	79.0	95.7

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

### Share price performance.



Source: FactSet, Barclay Pearce Capital

## First Half Trading Update

On 24<sup>th</sup> January 2022, Dusk Group Limited (DSK) announced its H1 Trading Update with the following highlights:

### Financial Summary

- Sales down 12.0% to \$80.0m, compared to \$90.0m in 1H FY21 and \$58.6m in 1H FY20;
  - Total Like for like sales (LFL) down 10.1% (cycling +49.3% in 1H FY21);
  - Stores LFL down 11.5% (cycling +44.0% in 1H FY21); and
  - Online sales up 4.3%, delivering \$7.4m and contribution 9.3% of total sales (cycling +120.0% in 1H FY21).
- Pro forma gross margin rate of 68%, up from 67.7% in 1H FY21;
- Pro forma EBIT is expected to finalise in the range of \$21.0m - \$21.5m, compared to \$28.3m in 1H FY21 and \$9.6m in 1H FY20;
- Net cash at period end of \$33.0m; and
- Store network finished the half at 128 stores (incl online), an increase of 6 new stores.

*"As previously advised, sales have been adversely impacted in the period by the government mandated stores closures in NSW, Victoria, and ACT. This has reduced the number of store trading days by approximately 24% (5,483 trading days lost). In addition, when stores were open, foot traffic in centres was significantly lower as many shoppers appear to have exercised caution as the potential risk of infection of the Omicron variant of COVID-19 escalated through December."*

*"Inventory at the end of the half was \$19.6m, compared to \$18.7m in 1H FY21. We are comfortable with both the quantity and quality of our inventory as we commence 2H FY22, but we continue to work closely with suppliers and logistics partners to minimise risks of material supply chain disruptions."*

*"The acquisition of Eroma is expected to complete on or around 28 February 2022. The Eroma business has continued to trade well. We expect this business to be a strong contributor to group earnings and EPS in its first full year of ownership."*

CEO Peter King said: *"Given the circumstances faced during the half, there is much to be pleased about in the overall result delivered, especially having regard to the fact we cycled exceptional LFL sales growth from the prior corresponding period. We remain focused on our customer and strategic priorities, and have made tangible progress on our growth strategies, including continued store roll out in Australia, preparing to commence operations in New Zealand, and the acquisition of Eroma."*

## Earnings Changes

DSK's EBIT for H1 FY22 is expected to be \$21.5M, compared to \$28.3m last year, down 24%. This is in line with current market expectations of full year EBITDA growth of negative 23%. Hence, we do not expect any significant earnings revisions for FY22 and for future periods.

## Valuation

We are initiating research coverage on DSK with a 12-month price target of \$4.42 and a BUY recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 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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**Hold** – Describes stocks that are neither a buy nor underperform.

**Underperform** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

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**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

### Valuation Methodology

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Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)