

4 February 2021

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Nick Scali Limited

Consumer Services

HOLD

NCK A\$10.60
TARGET PRICE A\$10.08

Nick Scali Limited is a furniture retailer operating in Australia. The Company is engaged in the sourcing and retailing of household furniture and related accessories.

Company Data

Number of shares	81.0M
Market Capitalisation	\$858.6M
Free float (%)	81.4
12-month high/low	\$10.94/\$3
Average Daily Turnover (\$m)	4.2
% S&P/ASX200	0.05
DDM Ranking	256
% All Ordinaries	0.04
GICS Industry Group	Consumer Services

Source: FactSet, Barclay Pearce Capital

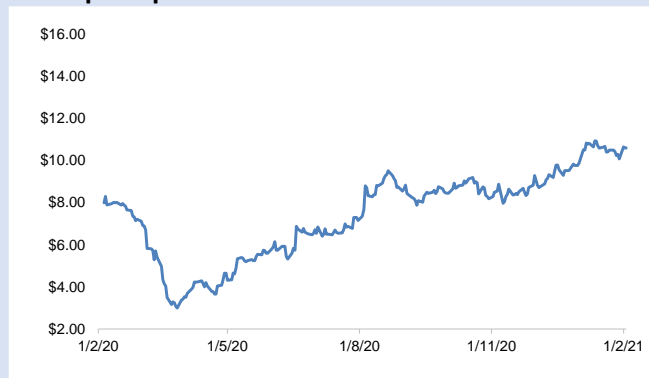
Earnings Summary (AUD)

Year end Adjusted EPS - c	2020A	2021F	2022F	2023F
Revenue (\$M)	262.5	324.0	342.9	362.0
EBITDA (\$M)	65.7	145.9	109.9	113.1
Reported NPAT (\$M)	41.8	86.3	61.9	63.4
Adjusted NPAT (\$M)	42.1	84.5	60.6	62.3
Reported EPS (c)	NA	120.0	80.5	75.9
Adjusted EPS (c - FD)	51.9	107.5	72.8	76.8
Adjusted EPS growth (%)	-0.2	107.1	-30.4	5.5
Adjusted P/E (x)	20.4	9.9	14.6	13.8
Dividend (c/sh)	47.5	87.6	60.5	64.2
Gross yield (%)	6.4	9.4	7.1	7.5
Net yield (%)	4.5	6.6	5.0	5.3
ROIC (%)	91.4	106.0	76.5	78.5

Source: Barclay Pearce Capital

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

Share price performance.



Source: FactSet, Barclay Pearce Capital

1HY21 Financial Results

On 4th February, Nick Scali Limited (NCK) announced their results for the half-year ended 31 December 2020 with the following highlights:

- Written sales orders and revenue at record levels, with 58% growth in like-for-like sales orders and 24% sales growth;
- Gross profit margin improved by 180 basis points due to reduced SKU discounting;
- Operating leverage saw sales growth lift net profit after tax by over 100%;
- Increase in profitability led to improved cashflows due to the negative working capital model;
- \$32.4m to be paid to shareholders through 40% interim dividend on 30 March 2021; and
- Two new stores successfully opened during bringing the Nick Scali Furniture store network to 60.

Sales Revenue

- Total sales revenue up 24% to \$171.1m, supported by an order bank which reached an all time record high at 31 December 2020.

Cashflow

- Strong cashflow generation with 1H FY21 operating cashflow of \$53.5m, up 222% on 1HFY20.

Balance Sheet

- Net assets of \$110.3m at 31 December 2020, prior to adjusting for AASB16.

Online & Digital Offering

- Continued growth in the Company's online offering with \$8.8m of written sales orders in 1HFY21.

New Zealand Summary

- Strong performance in New Zealand supported by the opening of a flagship showroom in Wairau Park during the half.

Outlook

- Continued trading momentum during January 2021 expected to contribute to further sales revenue growth in 2H FY21;
- The company expects to open two showrooms in the second half of the financial year, taking new store openings for FY21 to 4 stores;
- Sales order growth for the Group in January 2021 was up 47% compared to the same period last year, representing the largest month of written sales orders in the Company's history;
- January is traditionally the Company's largest trading month and the sales order bank at the end of January was at an all time high (further increase on December 2020);
- New Zealand performed particularly well in January with total sales orders up 130% when compared to the prior period;
- The rate of sales revenue growth has been lower than sales orders due to the extended lead times caused by delays in raw materials to our suppliers and shipping issues which continue to be challenging; and
- These supply chain delays make it difficult to accurately predict sales revenue growth for the second half.

Earnings changes

For the half year results of FY21, NCK reported a revenue of \$171.08M and NPAT of \$40.62M. These are higher than market expectations, so we expect a 21.62% increase in NPAT for FY21 and 15% increase in NPAT for future periods. Revenue is expected to increase at 23.4% for FY21 and 15% for future periods.

Valuation

We are initiating on NCK with a 12-month price target of \$10.08 and a HOLD 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 (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 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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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)