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Nick Scali Limited

Consumer Cyclical

HOLD

NCK A\$14.40 **TARGET PRICE A\$14.94**

Nick Scali Ltd (NCK) together engages in the retail and importation of household furniture and retailed accessories in Australia and New Zealand. It offers lounges, dining tables and chairs, armchairs, buffets/cabinets, TV units, coffee tables, consoles, rugs, mirrors, and pendants and lamps.

Company Data

Number of shares	81.0
Market Capitalisation	\$ 1,166.4
Free float (%)	76.1
12-month high/low	\$16/\$9.36
Average Daily Turnover (\$m)	2.831082
% S&P/ASX200	0.055
DDM Ranking	183
% All Ordinaries	0.047
GICS Industry Group	Specialty Retail

Source: FactSet, Barclay Pearce Capital

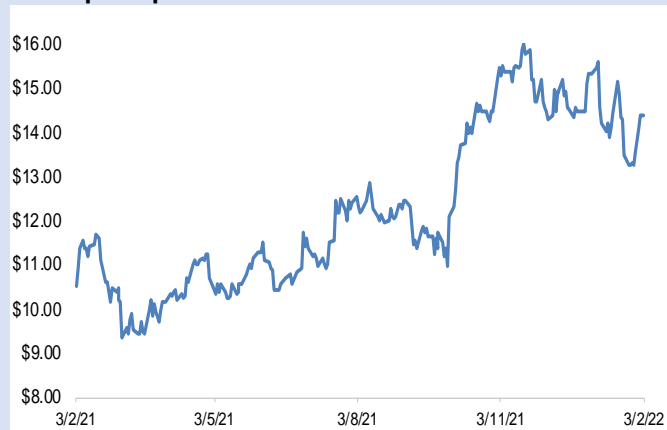
Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	373.0	450.8	536.5	581.0
EBITDA (\$M)	158.5	144.8	160.2	167.9
Reported NPAT (\$M)	84.2	80.0	82.6	79.2
Adjusted NPAT (\$M)	84.2	72.0	76.1	80.7
Reported EPS (c)	104.0	103.0	119.0	130.0
Adjusted EPS (c - FD)	104.0	89.3	94.2	99.8
Adjusted EPS growth (%)	100.4	-14.1	5.5	5.9
Adjusted P/E (x)	13.8	16.1	15.3	14.4
Dividend (c/sh)	65.0	63.4	69.3	78.9
Gross yield (%)	6.4	6.3	6.9	7.8
Net yield (%)	4.5	4.4	4.8	5.5
ROIC (%)	190.6	44.5	43.7	44.1

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

1HFY22 Results Presentation

On the 3rd of February 2022, NCK announced its HY22 Results Announcement with the following highlights:

Financial Highlights:

- Total Sales Revenue \$180.3M, up 5.4% from 1HFY21, Nick Scali Revenue growth was down 7.5%
- Total Written Sales Orders \$203.4M, up 6.4% on 1H FY21
- Outstanding Order Bank \$174.7M, up 70% from \$103.1M in 1H FY21;
- Total Gross Profit margin of 63.2%, Nick Scali 64.3% & Plush 54.8%, down from 64% (80bps) in 1H FY21
- Underlying NPAT \$35.6M, down 6.6% from 38.1M in 1H FY21;
- EBITDA \$73M, up 0.4% from \$72.7M in 1H FY21;
- EBIT \$55.1M, down 3.7% from \$57.2M in 1H FY21;
- Interim Dividend 35c per share, down 12.5% from 40c per share in 1H FY21, Ratio Payout 84.5% up 79.8% from 1H FY21;
- Acquisition of Plush completed Nov 21 for \$101.4M;
- Store Network 108 Showrooms, Nick Scali Furniture: 62 Plush: 46.

Overview:

- Whilst total revenue for the group growing by 5.4% during 1H FY22, Nick Scali revenue was down due to COVID disruption to three areas:
 - Temporary store closures between July and November
 - Lockdowns in sourcing locations; and
 - Shipping container availability

Outlook:

- January trading has provided a strong foundation for revenue growth in the second half with total written sales for the Group up 31% on the previous year'
- Trading during January in Nick Scali stores was down 6% due to a 25% decline in store traffic, however, the Group saw a marked improvement in traffic and sales towards the end of the month as consumers adjusted to managing during the pandemic;
- The Group's suppliers have recently reinstated lead times, and this should facilitate revenue growth over the coming months; and
- However, shipping costs and the availability of containers remains uncertain, and will be a major obstacle in the delivery of the outstanding order bank.

"Despite over half of our stores being closed between July and October, and the impact of international lockdowns on our key suppliers, we were still able to deliver a strong earnings result, which was 75% up on 1H FY20. We are very excited about the recent Plush acquisition which is on track to provide significant sales and profit growth for the Company as we expand the store network and benefit from synergies of a fully integrated business." - Managing Director, Anthony Scali

Earnings changes

NCK underlying NPAT was down 6.6% compared to 1H FY22, from \$38.1M (FY21) to \$35.6M (FY22). Market expectations for underlying NPAT growth for FY22 are down 5%. Hence, we don't expect any significant earnings revisions for FY22 or for future periods.

Valuation

We are updating our 12-month target price from \$12.52 to \$14.94 and retaining our 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 (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.

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.

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.

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Buy	38.2%	(0.0%	of stocks with recommendations are Barclay Pearce clients)
Hold	23.2%	(0.0%	of stocks with recommendations are Barclay Pearce clients)
Underperform	38.6%	(0.0%	of stocks with recommendations are Barclay Pearce clients)