

O/W: Still a quality outfit

Universal Store provided a trading update on Wednesday. Trading conditions have deteriorated much faster than we expected and updated guidance for sales, gross margins and EBIT was -6.4%, -130bps and -20.0% below our previous forecasts respectively. While the EBIT miss appears to have largely been driven by sales, the gross margin miss was likely due to increased promotional activity and customers reducing basket sizes. Look through on underlying quality (cash flow and cash conversion) is difficult, but CODB was ahead of our forecasts and the store roll-out has been delayed. However, on balance the key drivers of the downgrade appear to be macro led and we maintain our favourable view given; (i) attractive store pipeline; (ii) clear momentum from Perfect Stranger; (iii) CTC (Thrills) early success and; (iv) a strong, experienced management team. O/W.

Key Points

Valuation: TP -40.0% to \$4.20/share (blended DCF and PE), which reflects average EPS growth of 14.7% pa over three years. Valuation downgrades are compounded by FY24e multiple compression (-7.9% since we last published). UNI is trading on a FY24e PE of 10.7x, -16.7% vs. peers on 12.8x. We believe a premium is warranted due to UNI's growth profile.

Model changes: Underlying EBIT (post AASB-16) forecasts -20.1% and -39.5% to \$40.0m and \$35.3m in FY23e and FY24e respectively. Changes are driven by; (i) downgraded store sales and weak LFL's; (ii) gross margin reduction of -82bps (vs. prev.). Moderate compositional changes have also been made to CODB forecasts.

Guidance: Detailed quantitative guidance. Sales \$258.0-261.0m, gross margins ~61.1%, underlying EBIT \$39.0-41.0m. The store roll-out has also been adjusted, with only two stores expected to be opened in 2H23e (previously 8-10 stores) and four stores pushed into 1Q24e. We attribute the changes to timing and site suitability (not deliberate delays).

Trading update: Difficult trading. Universal stores started 2H23e strongly, with the first seven weeks LFL's +11.0% yoy while online understandably normalised, -3.7% yoy, post COVID-19. However, trading since that period has been challenging, particularly in stores, and we estimate store LFL's of -5-10% yoy. CTC (Thrills) is performing well and ahead of our expectations.

Profitability: Gross margins are expected to moderately exceed the 61.1% achieved in FY22a in FY23e, but were 130bps below our previous forecasts. We believe commentary suggests there has been increased levels of promotional activity and it will be heightened again in the June school holiday period (2H23e 60.9%). CODB was \$4.1m greater than expected (employee costs).

Recommendation

OVERWEIGHT

12-mth target price (AUD)	\$4.20
Share price @ 24-May-23 (AUD)	\$3.15
Forecast 12-mth capital return	33.3%
Forecast 12-mth dividend yield	5.0%
12-mth total shareholder return	38.3%

Market cap (\$m)	241.6
Enterprise value (\$m)	217.7
Shares on issue (m)	76.7
Sold short (%)	0.1
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.5

John Hynd

john.hynd@wilsonsadvisory.com.au
Tel. +61 2 8247 6661

Tom Camilleri

tom.camilleri@wilsonsadvisory.com.au
Tel. +61 2 8247 3106

12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	(34.5)	(39.4)	(30.8)
Rel return (%)	(33.9)	(39.5)	(31.5)

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	210.8	208.0	260.0	255.1	286.4
Sales growth (%)	36.1	(1.3)	25.0	(1.9)	12.2
NPAT norm (\$m)	30.4	21.1	25.8	22.5	31.5
Consensus NPAT (\$m)			31.1	37.4	41.0
P/E (x)	7.6	10.9	9.3	10.7	7.7
FCF yield (%)	33.1	18.2	21.8	23.0	27.4
Dividend yield (%)	4.9	6.8	6.5	5.6	7.8

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Key changes		24-Feb	After	Var %
Sales	FY23E	277.3	260.0	-6%
	FY24E	307.6	255.1	-17%
	FY25E	344.5	286.4	-17%
NPAT	FY23E	32.8	25.8	-21%
norm	FY24E	38.6	22.5	-42%
	FY25E	44.2	31.5	-29%
Price target		7.00	4.20	-40%
Rating		O/W	O/W	

Wilsons Equity Research

Analyst(s) who owns shares in the Company: n/a Issued by Wilsons Advisory and Stockbroking Limited (Wilsons) ABN 68 010 529 665 – Australian Financial Services Licence No 238375, a participant of ASX Group and should be read in conjunction with the disclosures and disclaimer in this report. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document.

Business Description

Universal Store Holdings Limited (UNI) is a specialty retailer of casual and youth apparel. It now has a diversified brand portfolio (Universal Store, Perfect Stranger and Thrills) and a fast-growing online platform.

Catalysts

1) ABS retail sales data; 2) Better than expected maturation of recently added store network; and 3) Take-up of new online sales initiatives.

Investment Thesis

UNI has an attractive product offering, a well aligned and experienced executive team and attractive runways for growth in online, private label and physical store numbers. While macro conditions are volatile, UNI has a captive and relatively well capitalised customer base and a high ASP/Margin which sets it apart from peers.

Risks

1) A return to retail lock-down conditions impacting store site selection plans; 2) aggressive discounting by departments stores carrying similar ranges; 3) disappointing take-up of private label offering; and 4) third parties ceasing supply arrangements.

P&L (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	210.8	208.0	260.0	255.1	286.4
EBITDA norm	48.7	35.7	42.5	38.0	51.5
EBIT norm	44.0	30.9	37.6	32.9	45.8
PBT norm	43.4	30.3	36.8	32.1	45.0
NPAT norm	30.4	21.1	25.8	22.5	31.5
NPAT reported	24.4	20.8	23.8	22.5	31.5
EPS norm (cents)	41.5	28.8	34.0	29.3	41.1
DPS (cents)	15.5	21.5	20.4	17.6	24.7

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	36.1	(1.3)	25.0	(1.9)	12.2
EBITDA norm	78.4	(26.7)	19.0	(10.5)	35.6
NPAT norm	87.6	(30.6)	22.0	(12.7)	40.2
EPS norm (cents)	87.6	(30.6)	17.8	(13.7)	40.2
DPS (cents)	n/m	38.7	(5.2)	(13.7)	40.2

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	23.1	17.2	16.3	14.9	18.0
EBIT margin	20.9	14.9	14.5	12.9	16.0
PBT margin	20.6	14.6	14.1	12.6	15.7
NPAT margin	14.4	10.1	9.9	8.8	11.0
ROA	21.5	15.2	13.9	11.7	15.5
ROIC	52.1	35.3	30.1	24.6	32.5
ROE	29.5	18.9	18.1	14.9	19.3

Interims (\$m)	1H22A	2H22A	1H23A	2H23E	1H24E
Sales	108.3	99.7	145.7	114.3	137.5
EBITDA norm	21.5	14.2	29.5	13.0	20.3
EBIT norm	19.3	11.6	27.3	10.3	17.5
PBT norm	19.1	11.2	27.0	9.8	17.1
NPAT norm	13.8	7.3	19.5	6.3	12.0
NPAT reported	13.5	7.3	17.5	6.3	12.0
EPS norm (cents)	18.9	10.0	25.4	8.2	15.6
DPS (cents)	11.0	10.5	14.0	6.4	9.4

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
Number of stores	67.0	77.0	95.0	104.0	112.0
GM incl. Freight (%)	58.8	58.3	57.8	56.5	57.6
LFL sales growth (%)	28.5	(9.5)	0.4	(1.9)	5.0
Online growth (%)	89.3	38.4	1.0	(0.0)	15.5

Balance sheet (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	33.4	38.8	31.9	32.1	37.4
Current receivables	2.4	3.0	3.7	3.7	4.1
Current inventory	17.7	18.0	22.3	22.6	24.7
PPE	9.2	10.9	12.9	12.9	12.9
Intangibles	92.7	93.0	140.7	140.7	140.7
Other assets	48.8	39.8	59.4	68.3	75.1
Total assets	204.2	203.6	271.0	280.3	295.0
Current payables	17.0	17.7	22.4	22.6	24.8
Total debt	14.8	14.9	14.9	14.9	14.9
Other liabilities	42.4	36.2	65.7	65.7	65.7
Total liabilities	101.2	92.0	129.0	129.3	131.4
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders equity	103.0	111.5	142.0	151.0	163.6

Cash flow (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	76.4	42.0	52.0	55.5	66.2
Maintenance capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	76.4	42.0	52.0	55.5	66.2
Growth capex	(2.6)	(6.8)	(25.2)	(10.6)	(12.8)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	(17.3)	(17.8)	(22.4)	(22.4)	(22.4)
Other cash flow	(5.4)	10.1	12.9	16.0	16.3
Cash flow pre-financing	51.2	27.5	17.4	38.5	47.4
Funded by equity	14.7	0.0	0.0	0.0	0.0
Funded by cash/debt	(29.4)	2.4	16.3	(2.7)	(6.1)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	99.8	60.5	91.8	33.3	60.4
Net debt (\$m)	(18.6)	(23.9)	(17.0)	(17.1)	(22.5)
Net debt / EBITDA (x)	(0.4)	(0.7)	(0.4)	(0.5)	(0.4)
ND / ND + Equity (%)	(22.1)	(27.3)	(13.6)	(12.8)	(15.9)
EBIT / Interest expense (x)	73.3	51.5	47.0	41.1	57.3

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	1.1	1.0	0.9	0.9	0.8
EV / EBITDA (x)	4.6	6.1	5.3	5.9	4.3
EV / EBIT (x)	5.1	7.0	6.0	6.8	4.8
P / E (x)	7.6	10.9	9.3	10.7	7.7
P / BV (x)	2.2	2.1	1.7	1.6	1.5
FCF yield (%)	33.1	18.2	21.8	23.0	27.4
Dividend yield (%)	4.9	6.8	6.5	5.6	7.8
Payout ratio (%)	37.3	74.6	60.0	60.0	60.0
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	73.2	73.2	75.8	76.7	76.7

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Changes to forecasts

Our EBIT forecasts (post-AASB) -20.1% (vs. prev.) to \$40.0m in FY23e, driven by the following changes:

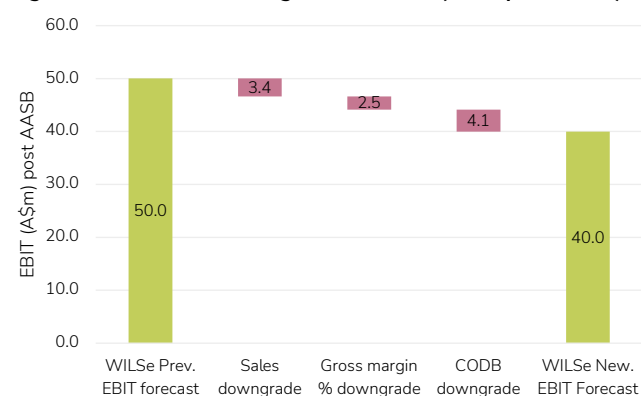
- Total revenue: -6.2% (vs. prev.) to \$260.0m, and inside UNI's guidance range (\$258.0-261.0m). The downgrades have flow-on impacts to outer years with revenue -17.0% (vs. prev.) and -16.9% (vs. prev.) in FY24e and FY25e respectively due to 2H23e store targets not being met for Universal B&M and Perfect Stranger B&M.
- Gross profit margin: -82bps (vs. prev.) to 61.6% (and 57.8% incl. freight costs), driven by UNI's comments for gross margins to "moderately exceed 61.1%". This implies gross profit margins of 60.9% in 2H23e, for which we do not forecast an immediate recovery in 1H23e (in what is likely to be a softer economic environment).

Figure 1: UNI old vs. new forecasts (A\$m)

	FY23e			FY24e			FY25e		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Total store-based revenue	226.8	209.2	-7.8%	243.2	198.4	-18.4%	272.3	223.1	-18.1%
Other revenue (Wholesale)	14.7	14.7	0.0%	20.6	20.6	0.0%	21.7	21.7	0.0%
Online revenue	35.8	36.1	0.8%	43.7	36.1	-17.6%	50.5	41.6	-17.6%
Total revenue	277.3	260.0	-6.2%	307.6	255.1	-17.0%	344.5	286.4	-16.9%
- Private Label revenue	122.2	113.9	-6.8%	129.5	98.4	-24.0%	150.0	114.1	-23.9%
- Third party & wholesale revenue	155.1	146.1	-5.8%	178.0	156.7	-12.0%	194.6	172.3	-11.5%
LFL Growth (stores)	3.4%	0.4%	-293 bp	3.0%	-1.9%	-494 bp	2.6%	5.0%	242 bp
Gross Profit (ex. freight)	173.1	160.1	-7.5%	192.2	154.5	-19.6%	216.4	176.4	-18.5%
Gross Profit Margin (ex. freight)	62.4%	61.6%	-82 bp	62.5%	60.6%	-193 bp	62.8%	61.6%	-120 bp
Gross Profit	162.8	150.3	-7.6%	180.1	144.1	-20.0%	202.7	164.9	-18.7%
Gross Profit Margin	58.7%	57.8%	-87 bp	58.5%	56.5%	-209 bp	58.8%	57.6%	-126 bp
EBITDA (pre AASB)	53.7	42.5	-20.9%	63.1	38.0	-39.7%	71.9	51.5	-28.3%
EBITDA Margin	19.4%	16.3%	-303 bp	20.5%	14.9%	-561 bp	20.9%	18.0%	-287 bp
D&A	6.1	4.9	-19.7%	7.1	5.1	-28.1%	8.0	5.7	-28.0%
EBIT (pre AASB)	47.6	37.6	-21.1%	56.0	32.9	-41.2%	64.0	45.8	-28.4%
EBIT Margin	17.2%	14.5%	-272 bp	18.2%	12.9%	-530 bp	18.6%	16.0%	-256 bp
Interest	0.8	0.8	0.0%	0.8	0.8	0.0%	0.8	0.8	0.0%
Tax	14.0	11.0	-21.4%	16.6	9.6	-41.8%	18.9	13.5	-28.7%
NPAT	32.8	25.8	-21.4%	38.6	22.5	-41.8%	44.2	31.5	-28.7%
EBITDA (post AASB)	75.3	64.1	-14.9%	84.7	59.6	-29.6%	93.5	73.1	-21.8%
EBIT (post-AASB)	50.0	40.0	-20.1%	58.4	35.3	-39.5%	66.4	48.2	-27.3%

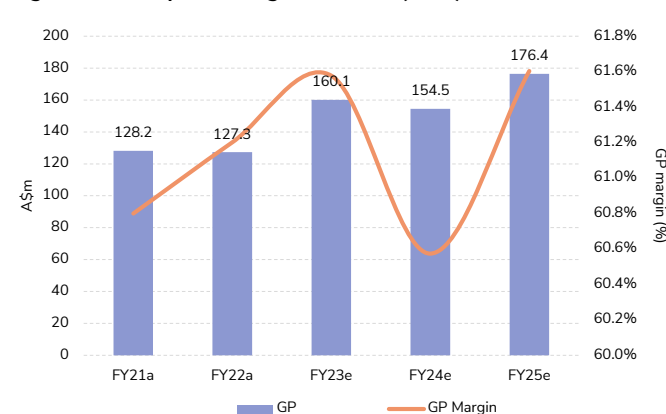
Source: WILSe.

Figure 2: FY23e EBIT downgrade waterfall (A\$m, post AASB)



Source: WILSe.

Figure 3: Gross profit margin forecasts (A\$m)



Source: WILSe.

Disclaimers and Disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/disclosures.

Analyst certification

Each analyst of Wilsons Advisory and Stockbroking Limited (ACN 010 529 665: AFSL 238375) ("Wilsons") whose name appears in this research certifies that (1) the recommendations and opinions expressed in this research accurately reflect the analyst's personal, independent and objective views about any and all of the subject securities or issuers; (2) no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research; and (3) to the best of the analyst's knowledge, he/she is not in receipt of material non-public information about the issuer.

Disclaimer

This document has been prepared by Wilsons. This communication is not to be disclosed in whole or part or used by any other party without Wilsons' prior written consent. All material presented in this document, unless specifically indicated otherwise, is under copyright to Wilsons. None of the material, its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Wilsons. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Wilsons to any registration or licensing requirement within such jurisdiction.

This document is being supplied to you solely for your information and no action should be taken on the basis of or in reliance on this document. To the extent that any information prepared by Wilsons contains any financial product advice, it is general advice only and has been prepared by Wilsons without reference to your objectives, financial situation or needs. You should consider the appropriateness of the advice in light of your own objectives, financial situation and needs before following or relying on the advice. You should also obtain a copy of, and consider, any relevant disclosure document before making any decision to acquire a financial product. Please refer to Wilsons' Financial Services Guide for more information:

wilsonsadvisory.com.au/disclosures. Any person, before acting on any advice contained within this communication, should first consult with a Wilsons investment adviser to assess whether the advice within this communication is appropriate for their objectives, financial situation and needs. Those acting upon such information without advice do so entirely at their own risk.

This document provided by Wilsons is current as at the date of the issue but may be superseded by future publications. Wilsons assumes no obligation to update the information or advise on further developments relating to the company or companies covered in this document ("Companies") or relevant financial products. Wilsons has not independently verified all of the information given in this document which is provided at a point in time and may not contain all necessary information about the Companies. Wilsons makes no warranty, express or implied, concerning any information prepared by Wilsons. Wilsons expressly disclaims (1) any implied warranty of merchantability or (2) fitness for a particular purpose, including any warranty for the use or the results of the use of any information prepared by Wilsons with respect to their correctness, quality, accuracy, completeness, reliability, performance, timeliness, or continued availability. Wilsons' research content should be viewed as an additional investment resource, not as your sole source of information. To the fullest extent permitted by law Wilsons, its related bodies corporate and their respective officers, directors, employees or agents, disclaim any and all liabilities for any loss or damage howsoever arising in connection with the use of this document or its contents. Past performance does not necessarily indicate a financial product's likely future performance.

This document may contain "forward-looking statements". Forward-looking statements, opinions and estimates provided in this document are based on assumptions and contingencies which are outside the control of Wilsons and are subject to change without notice (including but not limited to economic conditions, market volatility and company-specific fundamentals), and therefore may not be realised in the future.

This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Regulatory disclosure

Wilsons restricts research analysts from trading in securities for which they write research. Other Wilsons employees may hold interests in the company, but none of those interests are material. Wilsons further advises that at the date of this report, neither Wilsons Advisory and Stockbroking Limited or Wilsons Corporate Finance Limited have any material interests in the company.

Wilsons Advisory and Stockbroking Limited may have a conflict of interest which investors should consider before making an investment decision. Wilsons Advisory and Stockbroking Limited, Wilsons Corporate Finance Limited and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report. Wilsons further advises that at the date of this report, neither Wilsons Advisory and Stockbroking Limited or Wilsons Corporate Finance Limited have any material interests in the company. Wilsons restricts research analysts from trading in securities for which they write research. Other Wilsons employees may hold interests in the company, but none of those interests are material.

Wilsons contact

For more information please phone: 1300 655 015 or email: publications@wilsonsadvisory.com.au

