Morning Wrap

Today's Newsflow

Equity Research | 12 Jul 2023 | 08:21 BST

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Upcoming Events

Company Events

12-Jul	Grafton Group; Q223 Trading Update
	J D Wetherspoon; Q423 Trading Update
13-Jul	Barratt Developments; Q423 Trading Update
	DCC; Q124 IMS
	Trustpilot Group; Q223 Trading Update
18-Jul	NCC Group;

Economic Events

Ireland

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Goodbody Capital Markets

Equity Research +353 1 6419221

Equity Sales +353 1 6670222

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Grafton Group FY23 guidance reiterated

Recommendation: Buy
Closing Price: £7.62

David O'Brien
+353-1-641 9230
david.a.o'brien@goodbody.ie

Grafton Group has released a solid trading update ahead of the publication of its H123 results on August 31st. The performance in the first half was in line with expectations with the group growing revenues by 3.2% yoy to £1.19bn. On a like-for-like basis, sales were flat during the period (0.1%). Encouragingly, like-for-like momentum at a Group level ticked up in the second quarter to +0.8% versus -0.7% in the first quarter. Looking forward, the Group notes that market conditions remain challenging, and the business needs to continue to tightly manage its cost base given the volatile backdrop. Management notes that momentum continues in evaluating and engaging with potential acquisition targets. Not only does the Group's exceptionally strong balance sheet (net cash pre IFRS16 of £458m in FY22) offer flexibility from an M&A perspective but it underpins its ongoing buyback of £50m, announced in May, of which £22.8m was completed at the end of H1. While cognisant of the macroeconomic risks, the Group expects to deliver FY23 operating profit in line with market expectations.

Divisional highlights:

- **UK distribution** lfls declined in H1 (-2.3%) but trended better in Q2 (-0.9%) versus Q1 (-3.8%). The Group noted that Selco continued to experience "challenging trading conditions" in the residential RMI market with households reducing investment on discretionary projects. Lower volumes and sharp falls in timber / steel also led to a more competitive market backdrop during the period;

- **Ireland distribution** experienced challenges as the housing RMI market and the construction of single homes segment weakened, with lfls declining by -4.5% in Q2, a worsening on the -0.5% in Q1.

- **The Netherlands** continued to deliver a robust performance and experienced lfl growth of 3.7% in H1 (+2.6% Q2; +4.8% Q1) with the Group noting that volumes here were "broadly unchanged";

- **Finland** lfls were marginally negative during the period at -0.8% (-0.1% Q2; -1.6% Q1) with the Group noting softness in the Partner network driven by declines in both residential and non-residential markets;

- **Retailing** was a standout performer during the period with lfls increasing 6.3%, as the Group experienced a particularly strong Q2 (+14.1% Q2; -4.0% Q1) given good levels of demand for seasonal products;

- **Manufacturing** was the best performing division during the half, with lfl growth of 10.9% (+9.9% Q2; 12.0% Q1). This was underpinned by CPI mortars experiencing resilient volumes as well as StairBox continuing to grow its volumes of bespoke staircases.

In the context of downgrades coming for other names in the sector, the statement again highlights the quality of Grafton, the benefits of its geographical diversity and its ability to outperform in all market conditions. With the stock trading on less than 8x cash adjusted FY23 PE, we believe material downgrades were being discounted for FY23 which are not forthcoming. Risk reward is firmly in investors' favour.

Home…

Hostelworld Group "Record H1 Trading"

Recommendation: Buy
Closing Price: £1.21

George O'Connor
+353-1 603 2406
George.OConnor@goodbody.ie

A very encouraging H1 Trading Update features; (i) Largest H1 on record, Net GMV +57% Y/Y, revenue +57% Y/Y, Net bookings +64% Y/Y; (ii) H1 Adj EBITDA transformed to €5.1m vs -€5.2m Y/Y; (iii) a global beating pulse with "strong performances" in Europe, Asia and Oceania; (iv) the balance sheet rocks with cash (30 June) €10.7m/net debt €16.2m; (v) KPIs: Direct marketing 51% of revenue, 60% Y/Y, Net Average Booking Value €15.15 -4% Y/Y, +2% on FY22 as "a greater proportion of Asian destination bookings, partially offset by continued bed price inflation".

Our view is positive: Hostelworld affords investors the opportunity to: (i) invest in a global growth end-market, (ii) a diaspora (18-35 years) that is one of the fastest growing travel demographics, (iii) a differentiated technology solution (social network) and (iv) a financial model which sports improving unit economics as it throws off free cash. Despite the strong TSR (+7.1% YTD vs sector-9.6%) Hostelworld has an attractive valuation (EV/EBITDA 11/FCF yield 7%). Once again, the Great Getaway improves unit economics, profitability, cash flow and delivers upgrades. Guidance is unchanged but we move to the upper end of the range with FY Adj EBITDA €16.5m prior to €16.8m. Forecast updates (below) squeeze our Target price to 289p, prior 287p. Buy.
See our detailed note: Record H1 Trading: "Look Momma, I can fly"

Home…

J D Wetherspoon FY23 guidance reiterated, FY24 outlook looks ahead of expectations

Recommendation: Hold
Closing Price: £6.63

Patrick Higgins
+353-1-641 0403
patrick.m.higgins@goodbody.ie

JDW provided a pre-close trading update this morning in which it reported a continuation of its strong trading momentum into Q4 with LFL sales up 11.5% yoy in the quarter to date. LFL sales in the ytd are +12.9% yoy. In terms of the estate, the Group has sold, closed or surrendered 28 pubs, 15 of which were leasehold with the remaining 13 having another Weatherspoon pub nearby. The net cash inflow from these disposals was £6.5m. 22 pubs remain on the market.

Net debt currently sits at £688m, slightly lower than our £709m forecast. With regards to the outlook, the company expects profits for FY23 to be in-line with market expectations (GBY and consensus is c.£39m). For FY24, it expects an improved performance yoy given the continued improvement in sales and a slightly reduced expectation for cost increases which should lead to a H1'24 outcome in-line with the outcome delivered in H1'23.

Overall, this is an encouraging update from JDW with continued strong trading momentum, as expected, leading the Group to reiterate FY23 guidance. We also note the positive outlook for FY24 implies upside to our current forecast for £60m. Given the recent pull-back in the stock (-15% since 15 May), this update will likely be well received by the market though we note the macro backdrop in the UK remains uncertain.

Home…

Bytes Technology AGM Trading Statement - Strong underlying demand and market share gains

Recommendation: Buy
Closing Price: £5.06

Patrick O'Donnell
+353-1-641 6013
patrick.odonnell@goodbody.ie

Bytes Technology has this morning released a brief trading update ahead of its AGM later today. It notes that trading has continued strongly with "resilient demand and pleasing win-rates across both the corporate and public sectors". Gross profit and adjusted operating profit growth are both comfortably in the double digits (GBY: +19% Y/Y), and GII growth is significantly ahead of these (GBY: +17% Y/Y) owing to a high volume of lower gross margin software wins.

Overall, this is another strong statement from Bytes, again pointing to resilient demand across both the public and corporate end of the market and noting continued momentum despite macro headwind as BYIT continues to gain market share. The growth in GII in the first four months looks stronger than overall gross margin given the lower margin, higher volume contracts but at this early stage (4 months into financial year), we are maintaining our gross margin growth forecasts for FY24.

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Economic View Capital fund to sit alongside new sovereign wealth fund

Dermot O'Leary
+353-1-641 9167
dermot.c.oleary@goodbody.ie

Minister Michael McGrath has problems that many Finance Ministers are envious of currently. With a series of large surpluses expected out to 2026, the Minister must make important decisions on what to do with the expected windfalls in the context of competing demands for resources, the vulnerability and volatility of tax receipts and an economy that is at full capacity.

Back in April, the Minister put forward the suggestion of a new sovereign wealth fund for Ireland to house the accumulating assets, while several suggestions were put forward as to what this fund may be used for. At the Department of Finance annual policy conference yesterday, the Minister laid out a new suggestion for the fund – a countercyclical public investment fund. Recognising the large infrastructural needs of the country over the coming years, but also the historical volatility of capital spending in Ireland, the fund would act as a stabilising influence on this important spending line. In effect, this strategy was already flagged for the next three years through the announcement of an increase in "non-core" expenditure of €2.25bn in the recent *Summer Economic Statement*. Although the details have yet to be worked out, this new fund will formalise this process.

Although there has been some criticism by IFAC of the scale of spending increases planned for next year in the context of an economy at full capacity, the introduction of these new funds is a welcome addition, reducing some of the pro-cyclicality that has often been a feature of Irish fiscal policy in recent economic history. The devil will be in the detail of course in terms the scale of the fund and its uses.

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Goodbody, Ballsbridge Park, Ballsbridge, Dublin 4, Ireland
T (+353 1) 6670400 **W** www.goodbody.ie **E** research@goodbody.ie