Morning Wrap

Today's Newsflow

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Upcoming Events

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26-Apr	Kingspan; Q124 Trading Update
	Smurfit Kappa; Q124 Trading Update

Economic Events

Ireland

United Kingdom

26-Apr	GfK Consumer Confidence
25-Apr	CBI Distributive Trade Survery
19-Apr	Retail Sales Mar

United States

Europe

Goodbody Capital Markets
Equity Research +353 1 6419221
Equity Sales +353 1 6670222
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Bunzl Q1 Trading Statement Preview

Recommendation: Hold
Closing Price: £29.74

Gerry Hennigan
+353-1-641 9274
gerry.f.hennigan@goodbody.ie

While typically light on specific detail, bar YoY trends in revenue, the scheduled Trading Statement from Bunzl next Wednesday (24th,) covering the period ytd, will provide a base from which to reassess underlying growth and margin for the Group, which exiting 2023, were moving in opposite directions. The trend in revenue (-1.9% YoY for FY23), a function of H2 deflationary pressure notably in North America would suggest the potential for further volume / pricing pressure in Q1'24 given a more difficult YoY comparator. Countering the revenue trend, however, was a FY23 EBITA margin of 8.0% vs a prior historic 'high' of 7.7%, driven by progressive internal efficiencies (digital processing, own brand, etc.) and a recent M&A focus towards the higher margin sectors, a dynamic that we expect to continue.

In terms of the balance sheet, Bunzl exited 2023 with net debt (ex. Leases) of £1,086m or £1,750m (including leases) announcing year to date the acquisition of UK-based Nisbets, a distributor of catering equipment and consumables that operates in the UK and Ireland, Northern Europe, and Australasia and the Pamark Group, an anchor deal in Finland, with more dealflow, in our view, to follow.

Guidance in February outlined an expectation of "slight revenue growth" for the year to December, albeit with underlying revenue "declining slightly" and "Group operating margin to be slightly below 2023", updated commentary on which is likely to be the primary market focus in the statement next week.

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888 Holdings Q1 slightly ahead of upper end of guidance; return to revenue growth from Q2 onwards

Recommendation: Buy
Closing Price: £0.80

David Brohan
+353-1-641 9450
david.brohan@goodbody.ie

888 has this morning released its Q1 trading update. Group revenue came in at £431m, -3% YoY but +2% QoQ, and slightly above the upper end of the guided range (£420-430m). Divisionally, UK&I Online revenue declined by 1% YoY, Retail declined by 7% and International declined by 2%. On outlook, management note they remain confident of a return to growth from Q224 having lapped various regulatory and compliance changes during the quarter, along with an increased marketing spend and improved product.

- UK&I Online revenue came in at £164m, -1% YoY, however monthly actives grew by 9%. Betting revenue declined by 8% with stakes -9% and win margins +10bps. Gaming revenue returned to growth at +4% YoY.
- Retail revenue came in at £130m, -7% YoY. Betting revenue declined by 6% while gaming revenue declined by 7%. There was a 2% reduction in shops YoY.
- International revenue came in at £137m, -2% YoY. Betting revenue declined by 22% with stakes +2%, however win margin declined by 190bps YoY. Gaming revenue grew by 2%. The segment returned to growth in February and March delivering +4% YoY, as it lapped the Middle East VIP compliance issues, with growth in these months driven by Italy, Spain and Denmark.

Overall, this is another solid update from 888 with the group delivering revenue just above the upper end of guidance range. Within the numbers, it is encouraging to see the improving trends in UK&I Online, and return to growth in February and March in International. Retail is a touch disappointing, however we hadn't factored store closures into our estimations. BBG consensus sits at £344m for Adjusted EBITDA, and we don't anticipate any major changes to that post today's release. We remain positive on 888 with several recent developments in the equity story, including (i) appointment of a strong executive team; (ii) announcing a strategic review of the US B2C business; and (iii) conclusion of the UKGC review of 888's UK licence. While the group has undoubtedly gone through a challenging period, in our view the valuation remains undemanding with the company on track to deliver on its updated financial targets.

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Dalata Hotel Group RevPAR growth slows in the UK and improves in Ireland

Recommendation: Buy
Closing Price:€4.19

Dudley Shanley
+353-1-641 9174
dudley.c.shanley@goodbody.ie

STR released the March RevPAR data overnight. The data paints a mixed picture for Dalata Hotel Group. As expected, RevPAR growth in the UK continued to slow albeit at a faster pace than expected while there was a reduction in the pace of decline in Dublin and Regional Ireland returned to growth. The UK overall (c.40% of rooms) saw RevPAR increase by +0.7% yoy to £80.11 with OCC of c.74.4% and ADR of £107.71. Regional Ireland RevPAR (c.16% of rooms) was up +6.2% yoy at €99.07 with OCC of c.69.4% and ADR of €142.66. Dublin RevPAR (c.44% of rooms) came in at €132.85 (-5.2% yoy) with OCC of c.81.2% and ADR of €163.63. We expect RevPAR trends in Ireland to continue to improve as we move through 2024. This is based on the ongoing strength of demand, the strong schedule of events in Dublin, the continued strength of passenger numbers at Dublin Airport and the easing of comps. For FY24 we are forecasting a +2% increase in RevPAR in Dublin in 2024. Elsewhere, in Regional Ireland we are forecasting a +2.5% increase in RevPAR. The slowdown in RevPAR growth in the UK is faster than we had expected, we are forecasting a +5% increase in RevPAR in the UK in FY24.

While RevPAR trends have been weaker at the start of 2024, Dalata Hotel Group's management team remain optimistic on trading and we expect RevPAR trends to improve. The medium-term outlook for earnings growth remains strong and we think the current 35% discount to NAV is too big.

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UK Economic view Consumers still cautious

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

Having recovered from a weak Christmas season at the start of the year, the flatlining in retail sales in the UK over the past two months suggests that the UK consumer remains cautious.

Official retail sales data this morning shows no change in sales volumes in March and only a 0.4% yoy increase in Q1. Consensus was expecting a modest increase. Excluding the volatile fuels component, sales volumes trends were even weaker (0.2% yoy). Focusing on the annual changes in Q1, the worst performing category was Textiles, Clothing and Footwear (-5.6% yoy), with the best performing being Other (+7.2% yoy). Most other categories continue to be relatively flat, as they have been over the past few months.

Sequentially, Q1 was better than Q4 2023 and has contributed to the UK coming out of its mild recession at the end of last year. A resumption to real income growth is helping UK consumers but is offset by some weakening in employment and a relatively high household savings ratio. With little in the way of major drivers foreseeable over the coming months, we would expect this flat trend to continue.

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Goodbody, Ballsbridge Park, Ballsbridge, Dublin 4, Ireland

T (+353 1) 6670400 **W** www.goodbody.ie **E** research@goodbody.ie