

QuickView

Card Factory

Unbending

Card Factory is a deep value retailer, offering a core product at 99p that retails for twice that at high street competitors. Despite the wide price gap, management is adamant that it does not need to raise prices to maintain profitability, with a range of actions in progress to optimise both top line and cost structure. The share price has fallen steeply, but this could present an opportunity as there are a number of potential catalysts.

Interim results: Coming to terms with cost pressure

Card Factory, while market leader, is coming to terms with higher costs. PBT is down 5% at £26.3m. Footfall declines have been compensated by higher average spend as it expands its non-card range, to leave a creditable 3% like-for-like sales growth. But gross margins have been hit by currency, down 1.3 percentage points at 27.0%. And after the National Living Wage, wage costs rose 10.7% against revenue up only 6.1%. This new cost structure is unlikely to reverse anytime soon.

Standing firm against price increases

Despite cost pressure, management is resistant to price rises, choosing to retain its deep value appeal. Its core price point is 99p, which gives it 'clear blue water' against high street competitors, though less against supermarkets and online players. Management believes that there are sufficient opportunities to be addressed, both on sales and costs, to make the price option unnecessary.

The fightback: A range of actions

The sales strategy is aimed at increasing the range that customers will buy, including non-card gifts. The estate is growing, with 30 openings in H1 taking it to 895 and with an encouraging boost from retail parks. Online remains small, though growing c 30%, with opportunity further out. And management is mining efficiencies such as rent and rate cuts, streamlining internal tasks, and LED lighting. It is also refining supply chain management including some vertical integration, and EPOS will soon be in all stores, raising visibility on customer behaviour.

Valuation: Depressed but not without catalysts

The shares, down 21% post the results, trade at c 22% P/E discount to WH Smith, adjusted to January 2018. That appears to reflect slowing earnings growth adequately. Catalysts to share price recovery could be above-trend sales growth, from mix if not directly on price, advances in online share, or a boost from larger stores on retail parks. In addition, given management has signalled that the special dividend is subject to review, further cash distributions would likely be positive.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
01/16	381.6	82.0	19.1	23.5	14.6	8.4
01/17	398.2	85.1	19.8	24.1	14.1	8.7
01/18e	425.3	83.2	19.4	24.3	14.4	8.7
01/19e	451.5	86.7	20.3	9.9	13.7	3.6

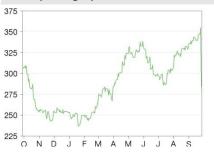
Source: Card Factory (underlying historic), Bloomberg (forecast: recent consensus)

28 September 2017

Retail

Price	278.5p
Market cap	£951m

Share price graph



Share details

Code	CARD
Listing	LSE
Shares in issue	341.5m

Business description

Card Factory is the UK's leading specialist retailer of greeting cards and related gifting items. It operates from 895 stores across the UK, and has an established online presence. Its key focus is to produce a wide range of quality cards and products at exceptional value.

Bull

- Market leader.
- Cash productive.
- Deep value with price potential in reserve.

Bear

- A discretionary purchase.
- Not yet addressing online competition.
- Cost structure suffers from weak sterling.

Analysts

Paul Hickman	+44 (0)20 3681 2501
Neil Shah	+44 (0)20 3077 5700

consumer@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.



Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the <u>Financial Conduct Authority</u>. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison Edison NZ US) is the US subsidiary of Edison and is registered on the New Zealand Financial Services routes (Edison Investment Research Initied (Edison Aus) [46065869] is the Australian subsidiary of Edison and is not regulated by the Sauthorise and Exchange Commission. Edison Investment Research Limited [Edison Aus) [46065869] is the Australian subsidiary of Edison and is not regulated by the Sauthorise and Exchange Commission. Edison Investment Research Limited [4794244]. <u>www.edisongroup.com</u>

DISCI AIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is subtitutional investors only. Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Such age Commission. Edison US relies voltable of securities in the head the information previded by use soluties and accurate previde provide prevanalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. We publish information about companies in which we believe our in the topic of this document. This document is provided for information provided by us should not be construed as an offer or propertive subscriptor as Solicitation of investment any securities mentioned or in the topic of this document. This document is provided for information provided by uses should not be construed as an offer or propertive subscriptor as a colicitation or inducement buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or propertive subscriptor as a solicitation or investment any securities mentinoned or in the topic of this document. This document is pr

Frankfurt +49 (0)69 78 8076 960 Schumannstrasse 34b 60325 Frankfurt Germany London +44 (0)20 3077 5700 280 High Holborn London, WC1V 7EE United Kingdom New York +1 646 653 7026 295 Madison Avenue, 18th Floor 10017, New York US Sydney +61 (0)2 8249 8342 Level 12, Office 1205 95 Pitt Street, Sydney NSW 2000, Australia