

Warpaint London

Consumer
30 April 2021

Returning to growth

Warpaint London's strategy is to provide customers with access to an extensive range of high-quality and affordable cosmetics. Its focus has been to develop its flagship brand, W7, while capitalising on the growth potential of e-commerce and international expansion. Although the pandemic caused the temporary closure of a number of customer retail outlets, the business remains in a strong position thanks to management's agility. Cash has been conserved and the business is now debt free. Given its exposure to the gifting segment, results are always skewed towards H2. FY21 has started well, with Q1 revenues up 9% versus the prior year, and management is optimistic that these encouraging trends will continue.

Business is debt-free despite pandemic

Group revenue of £40.3m in FY20 compares to FY19 revenue of £49.3m, with adjusted operating profit of £2.5m versus £5.6m in FY19. These were affected by the temporary closure of a number of customer retail outlets. FY20 EPS was 3.1p versus 6.3p a year ago. Cash generation continued and cash at year end was £4.9m, and £5.8m at the time of results. The final dividend is recommended at 3.0p bringing the total to 5.8p (as a reminder, including the special dividend of 1.3p paid in November 2020 to reflect the absence of a final dividend in 2019).

Focusing on growth

Warpaint continues to focus on growing the business. It has successfully launched the W7 brand in Tesco and Technic in wilko in the UK, and it is working on expansion in the United States and China. The pandemic accelerated the group's move to online/e-commerce. The close-out business purchases third-party stock which is then repackaged for sale. While this division is a good source of market intelligence, the group has further reduced its focus in this area with the decision to reduce close-out sales in the US in order to concentrate on selling its own brands. Close-out accounted for 12% of group revenue in FY20 (down from 15% in FY19) and was intentionally reduced further in Q121.

Valuation

Warpaint trades at a substantial discount to the international cosmetics sector on c 60x FY22 consensus earnings. This is warranted by its smaller scale, value proposition, less-recognised brands and own-label offering. We believe the discount could narrow, contingent on the continued successful delivery of management guidance, hence validating the strategy.

Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	Adj EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/19	49.3	7.2	6.3	1.5	19.8	1.2
12/20	40.3	4.2	3.1	5.8	40.3	4.6
12/21e	44.5	6.5	6.5	4.6	19.2	3.7
12/22e	49.1	7.8	8.3	4.7	15.1	3.8

Source: Refinitiv, company data

Price **125p**
Market cap **£95.9m**

Share price graph



Share details

Code W7L
 Listing AIM
 Shares in issue 76.7m

Business description

Warpaint London is a UK-based company engaged in the colour cosmetics business, both domestically and overseas. It comprises two divisions: branded and close-out. The former consists of a selection of brands, with the key focus on the company's flagship brand, W7.

Bull

- Fast-growing industry with broad customer base.
- Strong trade relationships through close-out history and brand reputation with W7.
- Positioned in an industry that has demonstrated resilience to economic cycles.

Bear

- Reliance on key suppliers and significant customers.
- Business is H2-skewed, and consumer environment is likely to be tough.
- Dependence on key personnel, as a result of a relatively small senior management team.

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