EDISON

QuickView

# Smiths News

Distribution

21 June 2021

## Interim dividend declared; yield attractions

**The declaration of the interim dividend, albeit modest, is the next step in the recovery of Smiths News as it signals that not only was trading at the interim stage in line with management expectations, but also that the company is on track to meet market expectations for the full year. Trading beyond the current year also has good visibility given that most of its contracts are in place until at least 2024. Debt is expected to fall to 1.0x EBITDA by the end of FY23, and dividends are well covered and growing. The stock trades on a forward P/E of 4.2x in FY22e, which is undemanding, with an attractive 5.6% yield.**

### Payment of 0.5p/share, goes ex-dividend on 1 July

At the interim results on 5 May, Smiths News stated its ambition to declare an interim dividend on condition that trading performance remained in line with management expectations. Today, it declared an interim dividend of 0.5p/share, which goes ex-dividend on 1 July and will be paid to shareholders on 30 July.

### Dividend declaration implies solid trading

The declaration implies that trading in the period from the interims until now, and for the next few months, is at least in line with management expectations. This paves the way for the declaration of a final dividend in respect of the current year, ending on 31 August, which will be announced with the prelims on 4 November.

### Consensus estimates imply y-o-y stability

Consensus forecasts, which are based on the estimates of two analysts, show relatively stable PBT and EPS for FY21 versus FY20, and include the expectation of a total dividend of 1.6p for FY21 versus EPS of 9.2p. This appears to be consistent with the 0.5p interim dividend declared today on the assumption of a one-third/two-thirds split in the payout. It also implies that the FY21 dividend is c 6x covered by consensus earnings, although the company is targeting cover of 2x, which could imply upside to payments after 2023 when the dividend cap is removed.

### Valuation: Sub 5x P/E, 5.6% yield in FY22e

Consensus EPS of 9.2p in FY21e and 9.8p in FY22e implies a P/E of below 5x in both years, which is undemanding in our view. The resumption of the dividends is also encouraging and consensus implies a yield of 3.9% this year, rising to 5.6% in FY22e, which we believe is attractive. The company also has a longer-term ambition to pay 'special' dividends from excess cash.

**Consensus estimates**

| Year end | Revenue (£m) | PBT (£m) | EPS (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 08/19 | 1,467.9 | 23.2 | 7.9 | 1.0 | 5.2 | 2.4 |
| 08/20 | 1,164.5 | 27.9 | 9.6 | 0.0 | 4.3 | 0.0 |
| 08/21e | 1,076.0 | 28.0 | 9.2 | 1.6 | 4.5 | 3.9 |
| 08/22e | 1,031.0 | 30.0 | 9.8 | 2.3 | 4.2 | 5.6 |

Source: Refinitiv

| | |
|---|---|
| Price | 40.95p |
| Market cap | £100m |

**Share price graph**


**Share details**

| | |
|---|---|
| Code | SNWS |
| Listing | LSE |
| Shares in issue | 245.2m |

**Business description**

Smiths News is the UK's largest newspaper and magazine wholesaler, with an approximate 55% market share. It distributes newspapers and magazines on behalf of the major national and regional publishers. Ancillary businesses include Dawson Media Direct (DMD) and Instore.

**Bull**

- Distribution volumes are predictable and cash generative.
- Major contracts secured until at least 2024.
- Dividend payments restarted; special payments possible.

**Bear**

- Newspaper and magazine volumes in slow but structural decline.
- Growth opportunities are scarce.
- Debt remains elevated but declining.

**Analyst**


Andy Murphy +44 (0)20 3077 5700

industrials@edisongroup.com


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