

# JD Sports Fashion

**General retail**
**22 May 2018**

## Set to take on America

Few retailers can boast the enviable track record of JD Sports, the ambitious multi-channel 'athleisure' business with a fashion-forward offering that combines the major sportswear brands with established own-label ranges. The company's expanding international footprint is about to be enhanced by a potentially game-changing recently announced US acquisition, which has yet to be reflected in the consensus forecasts.

## A consistent track record of beating expectations

JD Sports's ambition to dominate the evidently booming market for sports-inspired millennial fashion apparel and footwear ('athleisure') is paying dividends. The group has a consistent track record of exceeding market forecasts, even during periods of economic uncertainty. The FY18 results delivered a record PBT of £307.4m, reflecting a 45.4% three-year CAGR, driven by strong online sales growth, positive store LFLs, tight cost control and strategic acquisitions.

## Acquisition of an established US sports retailer

In March JD Sports announced the proposed \$558m (£413m) cash acquisition of Finish Line, a key US-listed multi-branded sports retailer with 556 stores principally located in the US, 563 Macy's department store concessions and a transactional website, generating revenue of \$1.8bn (£1.3bn) and PBT of \$54m (£40m) in FY17. Clearly, this deal will give the group an immediate and established foothold in the world's largest sportswear market. It also has the potential to enhance JD Sports's strategic importance to the major sportswear brands, such as US-based Nike.

## Deal yet to be reflected in consensus forecasts

Subject to approvals, the Finish Line deal is expected to close no earlier than June 2018. JD Sports has stated that initial integration synergies are likely to be limited and that it expects the acquisition to make a small incremental positive contribution to FY19e earnings. Thereafter, the longer-term financial benefits will be dependent on the speed at which changes (details of which have yet to be announced) can be made to the Finish Line business and improve the retail offer.

## Discount to peer group unjustified

The shares trade at a c 15% discount to the Bloomberg comparative peer group on both a forward P/E (14.4x) and EV/EBITDA (c 8.6x) basis. This seems unjustified given the group's consistently impressive performance, the overseas opportunity, strong cash generation and potential for upgrades to consensus forecasts.

### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
02/18	3,161.4	307.4	25.2	1.6	15.1	0.4
02/19e	3,475.3	329.8	26.4	1.7	14.4	0.4
02/20e	3,799.0	361.0	29.1	1.8	13.1	0.5
02/21e	4,166.0	402.5	32.1	1.9	11.9	0.5

Source: Bloomberg

**Price** 380.4p  
**Market cap** £3.7bn

### Share price graph



### Share details

Code JD.  
Listing LSE  
Shares in issue 973.2m

### Business description

JD Sports is a multi-channel retailer of branded and own-brand sports fashion and outdoor wear. The group has c 1,500 retail stores, predominately located across the UK and Europe, with a small but expanding footprint in the Asia-Pacific region. It operates multiple local currency/language websites.

### Bull

- Significant opportunity to penetrate the US market via the announced acquisition of Finish Line.
- Strong cash generation for further investment in infrastructure and acquisition targets.
- Strong relationships with the major sports brands.

### Bear

- Execution risks associated with the US acquisition.
- Risk of supplier withdrawal of a key sports brand.
- Risk of a shift in consumer tastes away from 'athleisure'.

### Analysts

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