

Park Group

Further progress in the key second half

Q4 trading update

Park has given a trading update covering the financial year that ended on 31 March 2017 ahead of the preliminary results announcement scheduled for 13 June 2017. Second half trading has maintained the momentum that was reported with the interims, delivering further good progress and an expected full year result in line with market expectations. Early indications for the coming year are also positive, with order levels ahead of their position at the same time last year, and management expresses confidence for a strong year ahead.

Year end	Billings** (£m)	PBT (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	372.9	10.9	4.6	2.40	17.8	2.9
03/16	385.0	11.9	5.2	2.75	15.7	3.4
03/17e	408.7	12.4	5.3	2.90	15.4	3.5
03/18e	440.4	13.4	5.7	3.05	14.3	3.7

Note: PBT and EPS are on a statutory basis. *Fully diluted. Adjustment made to FY17 dilution assumption. **Billings is a non-statutory measure of sales defined as the face value of voucher sales and the amount of value loaded on to prepaid cards.

Key H2 trading delivering expectations

Second half trading, which includes the important Christmas trading period, is highly significant for Park, accounting for the majority of revenues and all of the profits. In Consumer, the completed order book (Christmas 2016) was ahead more than 4%, in line with the interim position. The Corporate business has successfully converted a strong interim order pipeline into increased H2 sales. The statement highlights progress in 'Evolve' digital corporate rewards and incentivisation platform. Management expects to meet consensus earnings expectations and we note that the consensus PBT estimate of £12.6m is a little ahead of our own, which we will review with the preliminary results in June.

Product innovation continuing to drive sales

The Evolve platform and the introduction of Mastercard-licensed products are recent examples of the product innovation that are the fruits of ongoing investment in digital technology and e-commerce. Constant innovation has supported steady growth in Christmas savings and has allowed the Corporate division, based around incentive and rewards services, to grow strongly into what is a very large target market (£5bn pa as defined by the UK Gift Card & Voucher Association). Digitalisation and a small EU presence in the Republic of Ireland (RoI) are opening up new territories and new markets.

Valuation: Unchanged

Our fair value is unchanged at 88p. It is based on our absolute DCF valuation of 90p per share and a P/E relative comparison with businesses that share similar characteristics (86p per share). Park's earnings would benefit from an increase in interest rates.

Financial services

7 April 2017

Price 81.75p
Market cap £151m

Net cash (£m) at 30 September 2016 29.3
(excludes £169.4m of cash held in trust in respect of customer liabilities).

Shares in issue 184.4m
Free float 98.2%
Code PKG
Primary exchange AIM
Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	2.2	5.1	12.8
Rel (local)	2.5	3.2	(4.2)
52-week high/low	87.0p		60.8p

Business description

Park Group is a specialised financial services business. It is one of the UK's leading multi-retailer gift voucher and prepaid gift card businesses. Park facilitates corporate reward and incentive schemes, has the UK's leading Christmas savings business and operates an online gift voucher shop.

Next events

Preliminary results 13 June 2016

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Detail and background

Ahead of the preliminary results, which are scheduled for release on 13 June 2017, Park has issued a trading statement for the financial year that ended on 31 March 2017. The business has traded well in H2 and is expected to meet consensus expectations for the year. The Bloomberg consensus PBT estimate is £12.55m, a little ahead of our unchanged £12.35m estimate, which may indicate that we are being a little conservative. Given the brief nature of the trading update, we have made no change to our PBT and net income estimates at this stage (only a small adjustment to the assumed dilutive number of shares) and will review these in detail in June.

The interim results released in August indicated a number of positive trends, but it is in the second half of the year that c 80% of sales are recorded and all of the profits are made. Both the Corporate and Consumer divisions advanced sales in H1 and the seasonal pre-tax loss reduced to £760k from £1,404k, while cash balances advanced further. However, the H1 Corporate sales advance of 4% was lower than we had expected, but management indicated that the order pipeline was pointing to a stronger H2.

The trading update reports that completed orders for the Consumer business were over 4% ahead of last year, in line with the Christmas 2016 order book reported at the interim stage. The Corporate business appears to have delivered on the interim-stage pipeline and saw increased traction in H2, which management ascribes, in part, to progress with the 'Evolve' digital corporate rewards and incentivisation platform. Evolve, which was launched in June 2016, is an online branded platform that allows customer organisations to cost-effectively create and control their own web or smart device-based reward programmes in real time. The number of corporate customers that have used the system has reached 162, an increase from 65 at the time of the interims.

Cash balances (including customer funds held in trust), on which Park earns interest, seasonally peaked at a record £217m during H117 (FY16: £206m). Shareholder cash (non-segregated) was £32.6m and the trading update indicates that Park's overall financial position has remained extremely sound with cash balances ahead of last year.

Management reports that the early indications for the coming year from both the Consumer and Corporate businesses are positive, with order books again ahead of their position at the same time last year. The Consumer order book for Christmas 2017 will have been substantially built by this stage, giving management strong visibility for the year ahead.

Exhibit 1: Financial summary

Year end 31 March	£'000s	2014	2015	2016	2017e	2018e
PROFIT & LOSS		IFRS	IFRS	IFRS	IFRS	IFRS
Billings		336,040	372,887	385,031	408,690	440,402
Revenue		269,563	293,329	302,545	310,569	323,149
Cost of sales		(245,928)	(265,966)	(274,060)	(280,469)	(290,705)
Gross margin		23,635	27,363	28,485	30,100	32,444
Distribution costs		(2,521)	(2,761)	(2,909)	(2,919)	(3,070)
Administrative expenses		(11,421)	(13,057)	(13,150)	(14,070)	(15,338)
EBITDA		9,693	11,545	12,426	13,112	14,036
Depreciation & amortisation		(1,260)	(1,308)	(1,309)	(1,312)	(1,237)
Amortisation of acquired intangible, goodwill impairment, & impairment of investment property		(390)	(314)	(86)	(70)	(70)
Share-based payments		(215)	(235)	(631)	(888)	(890)
Exceptional operating income		0	0	0	0	0
Operating profit		7,828	9,688	10,400	10,841	11,839
Operating Profit (before amort. and except.)		8,433	10,237	11,117	11,799	12,799
Net Interest		1,576	1,245	1,457	1,510	1,600
Profit Before Tax (norm)		10,009	11,482	12,574	13,309	14,399
Profit before tax (IFRS)		9,404	10,933	11,857	12,351	13,439
Tax		(2,124)	(2,434)	(2,169)	(2,470)	(2,688)
Profit after tax (norm)		7,877	8,926	10,274	10,647	11,519
Profit after tax (IFRS)		7,280	8,499	9,688	9,881	10,751
Discontinued operations		0	0	0	0	0
Profit after tax (IFRS)		7,280	8,499	9,688	9,881	10,751
Average Number of Shares Outstanding (m)		178.8	184.7	187.2	187.2	187.2
Basic EPS - IFRS (p)		4.16	4.66	5.28	5.38	5.85
Fully diluted EPS - IFRS (p)		4.14	4.60	5.18	5.28	5.74
EPS - normalised fully diluted (p)		4.33	4.83	5.49	5.69	6.15
Dividend per share (p)		2.30	2.40	2.75	2.90	3.05
Gross margin on billings (%)		7.0	7.3	7.4	7.4	7.4
EBITDA margin as % of billings		2.9	3.1	3.2	3.2	3.2
Operating margin (before GW and except) as % billings		2.5	2.7	2.9	2.9	2.9
BALANCE SHEET						
Fixed assets		13,744	13,932	13,749	13,087	13,007
Intangible assets		5,110	4,488	4,356	3,977	3,910
Tangible assets		8,626	8,143	8,003	7,743	7,731
Retirement benefit obligation		0	1,293	1,390	1,367	1,367
Other		8	8	0	0	0
Current assets		84,484	106,998	119,365	127,362	141,561
Debtors		12,128	14,937	11,411	11,813	12,710
Cash held in trust		57,514	65,728	75,219	79,449	85,345
Cash available to group		14,842	26,333	32,735	36,100	43,506
Current liabilities		(100,848)	(118,190)	(124,808)	(126,985)	(135,491)
Creditors		(63,614)	(75,004)	(80,041)	(79,834)	(86,029)
Provisions		(37,234)	(43,186)	(44,767)	(47,151)	(49,462)
Short-term borrowings		0	0	0	0	0
Long-term liabilities		(1,515)	(2,907)	(1,881)	(1,362)	(663)
Long-term borrowings		0	0	0	0	0
Deferred tax		(294)	(273)	(181)	(181)	(181)
Retirement benefit obligation		(1,221)	(2,634)	(1,700)	(1,181)	(482)
Net assets		(4,135)	(167)	6,425	12,101	18,414
Minorities		311	0	0	0	0
Shareholders' equity		(3,824)	(167)	6,425	12,101	18,414
CASH FLOW						
Operating Cash Flow		4,094	14,106	12,184	14,583	15,050
Net interest		1,948	1,176	1,339	1,310	1,600
Tax		(2,079)	(2,132)	(2,490)	(3,741)	(2,688)
Capex		(977)	(597)	(1,126)	(743)	(1,228)
Acquisitions/disposals		52	41	52	0	0
Financing		4,700	0	0	0	0
Dividends		(3,704)	(4,198)	(4,380)	(4,123)	(5,327)
Other		(1)	0	(4)	0	0
Net cash flow		4,033	8,396	5,575	7,286	7,406
Opening net (debt)/cash		10,810	14,843	23,239	28,814	36,100
Closing net (debt)/cash		14,843	23,239	28,814	36,100	43,506

Source: Park Group, Edison Investment Research

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