

Domino's Pizza

On the front foot

Delivery is the byword for Domino's, with successful affirmation in 2020 of a proven model in challenging conditions. With collection (21% of 2019 sales) hampered by COVID-19 restrictions, delivery stepped up with 24% top-line growth, driving a 7% rise in full-year like-for-like PBT. This is complemented by a new digital-led strategic plan (medium-term target of 20–40% higher system sales) and a commitment to return surplus cash to shareholders (£88m for 2020). Also, longstanding friction with franchisees, potentially a key obstacle to growth, is being actively addressed by management, itself revamped. Relatively unscathed in a COVID-19-bedeveloped hospitality market, Domino's appears fairly rated in terms of its long-term prospects.

Adapting well

It is to management's credit that the loss in 2020 of over a third of its higher-margin collection business and menu rationalisation owing to COVID-19 measures and ensuring store colleagues' safety did not prevent a marginal rise in UK and Ireland EBIT, adjusted for net COVID-19 impacts (£9m costs less £3.6m VAT benefit) and £2.2m IFRS 16. Delivery, ordinarily c 80% of company revenue, remained open throughout the period, growing sales from a pre-pandemic norm of 4% in Q1 to a bumper c 25% in the rest of the year. Digital was predictably a spur with full-year UK online sales up by 24% (twice the rate of total system sales), boosted by the app (4.3m downloads and over five million new customers). By contrast, trading at Domino's directly operated stores in the London area was subdued owing to reduced footfall.

Moving on

The coincidence of new management with a changed environment post COVID-19 should serve Domino's well as the 'strategic transformation' is well in hand. This includes the launch of digital platforms to accelerate delivery (typically, from 25 to under 20 minutes) and CRM, enhancement of collection, menu innovation (more healthy, vegan), value offerings and scale efficiencies for the benefit of the company and franchisees. The goal is to expand annual system sales from £1.35bn to £1.6–1.9bn over the medium term, accompanied by 200 store openings (c 1200 at present). Evidently an optimum relationship with franchisees will be required.

Well cooked

Despite pandemic uncertainty a strong start to 2021 and expected lower COVID-19 costs should underpin market forecasts of flat profits. However, a premium price rating may deter investors until evidence of strategic plan paying off.

Consensus estimates (excluding discontinued international operations)

Year end	Revenue (£m)	EBITDA (£m)	EPS (p)	DPS (p)	Yield (%)	EV/EBITDA (x)
12/19	508.3	117.0	17.6	9.76	2.9	15.5
12/20	505.1*	125.5*	18.2*	9.10	2.7	14.0
12/21e	546.1	122.3	18.1	10.50	3.1	14.5
12/22e	566.4	128.6	19.1	11.10	3.3	13.8

Source: Refinitiv. Note: *Adoption of IFRS 16 decreases revenue by £25.4m and benefits EBITDA by £7.9m and EPS by 0.1p.

Travel & Leisure

11 March 2021

Price 337p
Market cap £1,580m

Share price graph



Share details

Code	DOM
Listing	LSE
Shares in issue	469.0m

Business description

With exclusive master franchise rights, Domino's Pizza Group is the UK's leading pizza brand and a major player in the Irish market. At the end of 2020 it had 1,201 stores. It is exiting all directly controlled international operations (classified as discontinued, so excluded from underlying results).

Bull

- Clear brand leader in pizza, the number one choice in the growing delivered-food market.
- Asset-light, highly cash-generative model, prompting new commitment to distribute surplus capital via share buybacks and dividends.
- Digital transformation with online over 90% of system sales and five million new customers in 2020.

Bear

- COVID-19 uncertainty despite 2020 resilience.
- Longstanding 'challenging relationship' with franchisees has yet to be resolved, although a new offer has been made by Domino's.
- Strong competition, notably from aggregators, mitigated by end-to-end control of customer experience from manufacture to distribution.

Analysts

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