

Photo-Me International

Laundry opportunities and Japanese restructuring

Photo-Me's (PHTM's) FY18 results confirmed a successful business model divided by mutually exclusive sectors. A choppy market in Asia squeezed segment revenues but restructuring plans potentially improve profitability beyond FY19. FX headwinds and reduced tax benefited margins, although politically driven tax breaks can't be assumed to be permanent. The aggressive laundry unit roll-out helped to drive the top line with segment revenue mix shifting in Portugal and Ireland. We expect consensus to be downgraded temporarily but expansion in underpenetrated markets supports low single-digit growth over coming years.

FY18 results: Earnings per share overshoot

Results surprised the market with PBT (underlying) growth of 4.4% but EPS growth of 14.2% on lower tax. Group revenue was up 7.1% to £229.8m, driven primarily by the rapid expansion of Laundry. The Japanese market proved challenging with the ID card programme failing to gain the anticipated momentum, which led to a decline of 35.7% in Asia segment operating profit (c 22.0% share of group vending units). Strategic acquisitions, organic growth and favourable exchange rates resulted in EBITDA growth of 2.8%; however, EBITDA margin decreased 130bp to 30.9%

Laundry: Undemanding 2020 laundry unit target

Year-on-year revenue from laundry operations rose 69.1%, contributing 16% of total revenue (FY17: 10%) – a key driver of revenue with higher margins. Synergies from acquiring La Wash Group (May 2018) should contribute, with B2B and launderette expertise raising barriers to entry in the Spanish market. On a quest to expand B2B exposure, PHTM will seek acquisition opportunities in continental Europe supported by its cash-generative model. Compound annual laundry unit growth over the past four years has been c 42%, against which the target of 6,000 units by FY20 (FY18: 4,449) looks undemanding.

Valuation: Upsides despite high payout ratio

Consensus PBT is set to remain flat from FY18 to FY20, although this factors in restructuring costs in Japan. Consensus FY19e DPS is 8.2p; however, a high FY19 dividend payout ratio of 0.9 raises sustainability concerns. While the FY19 P/E valuation looks low relative to c 15.0x for the 2018 FTSE All-Share Consumer Goods index, continued delivery versus consensus could see the discount begin to close.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
04/17	214.7	48.0	9.3	7.0	11.9	6.3
04/18	229.8	50.2	10.6	8.4	10.5	7.6
04/19e	239.8	45.5	9.2	8.2	12.1	7.4
04/20e	253.5	50.4	10.2	8.4	10.9	7.6

Source: PHTM, Bloomberg

Consumer goods

19 July 2018

Price 111p
Market cap £419m

Share price graph



Share details

Code PHTM
Listing LSE
Shares in issue 377.5m

Business description

Photo-Me provides instant service vending equipment operating through three main segments: Identification, Laundry and Kiosks. The company has approximately 48,000 units in operation across 18 countries sited in high footfall locations such as shopping malls and public transport facilities.

Bull

- High barriers to entry in the Identification and laundry markets.
- High-margin laundry business is a key revenue driver.
- Effective B2B launderette acquisition and integration strategy.

Bear

- Dividend uncovered by cash.
- Lack of cross-synergies between markets.
- Risk of government centralisation of ID photo production.

Analysts

Paul Hickman +44 (0)20 3681 2501
Kate Heseltine +44 (0)20 3077 5700

consumer@edisongroup.com

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

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2014]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.