

SandpiperCI Group

FY22 results

Growing undeterred

SandpiperCI Group's FY22 results confirm another outstanding performance following a year that was once again affected by pandemic-related challenges. The food retail side of the business continued its industry beating performance; the non-food shops were affected by some forced closures but showed significant growth versus the prior year, and footfall trends have continued to improve. We expect FY23 to be characterised by an underlying slowdown in food retail and a further improvement in non-food, as shopping habits return to normal. The inflationary environment is likely to provide a tailwind to revenues, though we broadly maintain our profit forecasts at this juncture given the prevalence of cost inflation, which is likely to adversely affect margins.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/21	200.4	5.1	4.09	3.00	22.5	3.3
01/22	210.7	7.3	5.82	3.30	15.8	3.6
01/23e	216.1	6.9	5.50	3.50	16.7	3.8
01/24e	221.4	6.4	5.15	3.60	17.9	3.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY22 results

FY22 revenue of £210.7m was up 5.1% y-o-y while trading EBITDA of £12.7m was up 12% y-o-y. Net debt reduced by £4.0m during the year to £13.6m, despite the acquisition of Red Group for £0.9m (net of cash acquired). We note that the food retail business witnessed like-for-like sales growth of 16% over two years, which undoubtedly benefitted from the pandemic, but the performance was materially stronger than food retailers in mainland Britain during the same period.

Expansion to drive growth in the long term

Sandpiper has leveraged its relationships with its franchise partners to introduce their brands in additional geographies, while finding opportunities in existing geographies, such as the acquisition of Le Cocq's Stores in Alderney in 2021. In our view, there are some opportunities for in-fill across existing geographies and scope for entry into new territories, although we believe the larger long-term opportunity is likely to be an expansion into an adjacent segment such as hospitality.

Valuation: Fair value of 130p

We value Sandpiper primarily on a DCF basis. We have rolled forward our DCF model and increased our WACC assumptions to reflect rising interest rates. Our model assumes medium-term sales growth of 3.5%, terminal growth rate of 1.5% and broadly flat margins. At a WACC of 8.7% this results in an unchanged fair value of 130p/share. While there are not many direct peers, Sandpiper trades on a CY22 P/E of 16.6x and EV/EBITDA of 9.1x, a c 25% premium to a peer group of food retailers and franchisors. We believe a premium is justified by Sandpiper's significant freehold property portfolio and its attractive and well-underpinned dividend yield (3.8% in 2022).

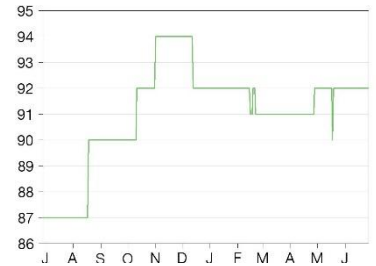
Retail

28 June 2022

Price 92p
Market cap £92m

Net debt/cash (£m) at xx xxxx	13.6
Shares in issue	100m
Free float	100%
Code	SANDPI
Primary exchange	TISE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	NA	NA	NA
Rel (local)	NA	NA	NA
52-week high/low		98p	82p

Business description

SandpiperCI operates a high-quality portfolio of retail brands covering food, clothing and specialist products. It primarily operates franchise stores but also a number of its own food convenience stores. It is the leading Channel Islands retailer and is also present in Gibraltar and the Isle of Man.

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Analysts

Sara Welford +44 (0)20 3077 5700
 Russell Pointon +44 (0)20 3077 5700

consumer@edisongroup.com

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FY22 results

FY22 revenue of £210.7m was up 5.1% y-o-y while trading EBITDA of £12.7m was up 12% y-o-y. Net debt was reduced by £4.0m during the year to £13.6m. The food retail business witnessed like-for-like sales growth of 16% over two years, a stronger performance than food retailers in mainland Britain. Gross margins were up 80bp during FY22 and trading EBITDA margins were up 40bp. As discussed above, we expect the food retail side of the business to decelerate in volume terms as trading normalises in FY23, while the non-food retail business should continue to recover as consumer footfall improves. In addition to these trends, inflation is starting to feature across the entire business. We expect FY23 revenues to see some benefit from this as prices rise, and of course the food retail side is less discretionary and hence less likely to see an adverse impact on volumes (though downtrading could start to feature). We also expect rising costs, however, and hence our profit forecasts are broadly unchanged. We illustrate the changes to our forecasts below.

Exhibit 1: Old versus new forecasts (FY22–24)									
Year end January (£000s)	FY22e	FY22	Change	FY23e			FY24e		
				Old	New	Change	Old	New	Change
Revenues	205,182	210,674	2.7%	210,424	216,063	2.7%	215,659	221,433	2.7%
Gross profit	15,937	18,836	18.2%	16,344	18,454	12.9%	16,750	18,912	12.9%
Gross margin	7.8%	8.9%	1.2%	7.8%	8.5%	0.8%	7.8%	8.5%	0.8%
Trading EBITDA	11,833	12,715	7.5%	12,135	12,176	0.3%	12,437	12,479	0.3%
Trading EBITDA margin (%)	5.8%	6.0%	4.7%	5.8%	5.6%	(2.3%)	5.8%	5.6%	(2.3%)
Normalised PBT	5,306	7,281	37.2%	5,334	6,881	29.0%	5,357	6,432	20.1%
Reported PBT	5,306	7,422	39.9%	5,334	6,881	29.0%	5,357	6,432	20.1%
Normalised basic EPS (p)	4.25	5.82	37.2%	4.27	5.50	29.0%	4.29	5.15	20.1%
Normalised diluted EPS (p)	4.25	5.82	37.2%	4.27	5.50	29.0%	4.29	5.15	20.1%
Reported basic EPS (p)	3.87	5.55	43.2%	3.89	5.02	29.0%	3.91	4.70	20.1%
Dividend per share (p)	3.30	3.30	0.0%	3.50	3.50	0.0%	3.60	3.60	0.0%
Net debt/(cash)	17,018	13,640	(19.8%)	16,737	11,719	(30.0%)	16,417	10,641	(35.2%)

Source: Edison Investment Research, company data

Valuation

We value Sandpiper primarily on a DCF basis, which we have rolled forward to commence in FY23. Our model assumes medium-term sales growth of 3.5%, a terminal growth rate of 1.5% and broadly flat margins. We have raised our WACC to 8.7% (from 8.2%) to capture the effect of rising interest rates. At a WACC of 8.7%, our DCF analysis results in a fair value of 130p per share. Our medium-term sales growth of 3.5% reflects long-term RPI forecasts of c 3% over the cycle and modest growth in store space, as Sandpiper expands across its existing geographies.

We illustrate Sandpiper's valuation metrics versus its peers in Exhibit 2 below. Comparison is not straightforward as there are not many direct peers. We include the listed franchisors as peers although we recognise their business models are slightly different. Sandpiper trades on a CY22 P/E of 16.6x and EV/EBITDA of 9.1x, a c 20% premium respectively to its peer group on both measures. We believe a premium is justified by Sandpiper's significant freehold property portfolio, its attractive and well-underpinned dividend yield (3.8% in 2022), and management's recognition that dividend yield is important to its investors. While there is no defined catalyst to suggest a revaluation is imminent, we believe continued earnings growth will underpin the shares. In addition, the significant freehold property valuation (last valued in January 2022) lends support to the valuation.

Exhibit 2: Peer group valuation (calendarised)

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2022e	2023e	2022e	2023e	2022e	2023e
Sainsbury	£4,958.1	9.9	9.8	5.1	5.1	5.8	5.9
Tesco	£19,108.4	12.0	11.5	6.8	6.6	4.2	4.4
Wm Morrison	£2,839.0	8.0	8.2	4.6	4.7	3.6	5.0
Marks & Spencer	£391.3	20.2	17.6	8.4	7.4	0.0	0.0
Hotel Chocolat	£168.9	9.8	5.9	4.2	3.6	0.0	6.4
Card Factory	£1,361.0	14.9	13.7	12.6	11.8	3.5	3.8
Domino's Pizza	£80.5	17.7	11.8	9.1	7.9	0.0	0.0
DP Eurasia	£4,958.1	9.9	9.8	5.1	5.1	5.8	5.9
Peer group average		13.2	11.2	7.3	6.7	2.4	3.6
SandpiperCI Group	£92.0	16.6	17.8	9.1	8.9	3.8	3.9
Premium/(discount) to peer group		26.0%	58.6%	25.1%	32.5%	54.6%	7.3%

Source: Refinitiv, Edison Investment Research, company data. Note: Priced at close on 27 May 2022.

Sandpiper trades at a premium to its peers on both P/E and EV/EBITDA. This is due to its strong property portfolio, attractive dividend yield and relatively low level of debt, in our view. The current equity market valuation is £92m, or an EV of £106m. With a property portfolio valued at £67.5m, this implies the franchise operations are valued at just £38.5m. Of course, for full comparison, an operating company stripped of the property would have to bear rental costs instead of depreciation. The dividend is well covered by free cash flow and Channel Island investors should benefit from tax relief on any dividends paid after December 2020.

Exhibit 3: Financial summary

	£'k	2018	2019	2020	2021	2022	2023e	2024e	2025e
31-January		FRS102	FRS102	FRS102	FRS102	FRS102	FRS102	FRS102	FRS102
INCOME STATEMENT									
Revenue		174,884.0	189,056.0	188,475.0	200,380.0	210,674.0	216,062.8	221,433.3	226,940.5
Cost of Sales		(160,200.0)	(174,956.0)	(173,836.0)	(184,148.0)	(191,838.0)	(197,609.2)	(202,521.1)	(207,557.9)
Gross Profit		14,684.0	14,100.0	14,639.0	16,232.0	18,836.0	18,453.6	18,912.2	19,382.6
EBITDA		8,444.0	10,013.0	10,973.0	11,310.0	12,715.0	12,176.0	12,478.6	12,789.0
Normalised operating profit		3,838.0	5,003.0	5,834.0	5,972.0	7,868.0	7,494.6	6,974.5	7,186.5
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(1,395.0)	4,309.0	(2,390.0)	(389.0)	141.0	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		2,443.0	9,312.0	3,444.0	5,583.0	8,009.0	7,494.6	6,974.5	7,186.5
Net Interest		(1,306.0)	(1,207.0)	(1,058.0)	(854.0)	(587.0)	(613.8)	(542.5)	(488.6)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	(257.0)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		2,532.0	3,796.0	4,519.0	5,118.0	7,281.0	6,880.8	6,431.9	6,697.9
Profit Before Tax (reported)		1,137.0	8,105.0	2,129.0	4,729.0	7,422.0	6,880.8	6,431.9	6,697.9
Reported tax		(1,248.0)	(1,348.0)	(1,281.0)	(1,462.0)	(1,873.0)	(1,857.8)	(1,736.6)	(1,808.4)
Profit After Tax (norm)		(247.2)	3,036.8	3,563.8	4,094.4	5,824.8	5,504.7	5,146.6	5,358.3
Profit After Tax (reported)		(111.0)	6,757.0	848.0	3,267.0	5,549.0	5,023.0	4,695.3	4,889.5
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(247.2)	3,036.8	3,563.8	4,094.4	5,824.8	5,504.7	5,146.6	5,359.3
Net income (reported)		(111.0)	6,757.0	848.0	3,267.0	5,549.0	5,023.0	4,695.3	4,889.5
Basic average number of shares outstanding (m)		100	100	100	100	100	100	100	100
EPS - basic normalised (p)		(0.25)	3.04	3.56	4.09	5.82	5.50	5.15	5.36
EPS - diluted normalised (p)		(0.25)	3.04	3.56	4.09	5.82	5.50	5.15	5.36
EPS - basic reported (p)		(0.11)	6.76	0.85	3.27	5.55	5.02	4.70	4.89
Dividend (p)		0.50	1.00	2.30	3.00	3.30	3.50	3.60	3.60
Revenue growth (%)		12.4	8.1	(-0.3)	6.3	5.1	2.6	2.5	0.0
Gross Margin (%)		8.4	7.5	7.8	8.1	8.9	8.5	8.5	8.5
EBITDA Margin (%)		4.8	5.3	5.8	5.6	6.0	5.6	5.6	5.6
Normalised Operating Margin		2.2	2.6	3.1	3.0	3.7	3.5	3.1	3.2
BALANCE SHEET									
Fixed Assets		76,015.0	92,809.0	95,748.0	98,468.0	100,743.0	100,382.9	100,414.6	100,485.6
Intangible Assets		27,268.0	26,169.0	24,454.0	24,605.0	23,875.0	22,325.0	20,775.0	19,225.0
Tangible Assets		48,745.0	66,471.0	71,292.0	73,861.0	76,866.0	78,055.9	79,637.6	81,258.6
Investments & other		2.0	169.0	2.0	2.0	2.0	2.0	2.0	2.0
Current Assets		26,070.0	23,295.0	26,014.0	22,114.5	26,129.0	28,612.4	30,192.5	32,037.0
Stocks		10,203.0	10,447.0	10,505.0	11,990.0	13,496.0	13,902.0	14,247.6	14,601.9
Debtors		4,089.0	5,229.0	5,714.0	5,742.0	6,126.0	6,282.7	6,438.9	6,599.0
Cash & cash equivalents		11,778.0	7,619.0	9,795.0	4,382.5	6,507.0	8,427.7	9,506.1	10,836.1
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities		(49,207.0)	(31,127.0)	(33,566.0)	(30,916.3)	(34,257.0)	(34,857.7)	(35,374.2)	(36,000.3)
Creditors		(27,856.0)	(29,215.0)	(26,716.0)	(29,054.0)	(32,400.0)	(33,000.7)	(33,517.2)	(34,143.3)
Tax and social security		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings		(21,351.0)	(1,912.0)	(6,850.0)	(1,862.3)	(1,857.0)	(1,857.0)	(1,857.0)	(1,857.0)
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(2,722.0)	(25,047.0)	(24,556.0)	(23,957.0)	(19,160.0)	(19,160.0)	(19,160.0)	(19,160.0)
Long term borrowings		(101.0)	(23,367.0)	(22,038.0)	(20,168.0)	(18,290.0)	(18,290.0)	(18,290.0)	(18,290.0)
Other long term liabilities		(2,621.0)	(1,680.0)	(2,518.0)	(3,789.0)	(870.0)	(870.0)	(870.0)	(870.0)
Net Assets		50,156.0	59,930.0	63,640.0	65,709.2	73,455.0	74,977.5	76,072.9	77,362.3
Minority interests		0.0	0.0	0.0	(468.5)	(912.0)	(912.0)	(912.0)	(912.0)
Shareholders' equity (excl minorities)		50,156.0	59,930.0	63,640.0	65,240.7	72,543.0	73,059.9	74,065.5	75,160.9
CASH FLOW									
Op Cash Flow before WC and tax		8,444.0	10,013.0	10,973.0	11,310.0	12,715.0	12,176.0	12,478.6	12,789.0
Working capital		2,195.0	(1,306.0)	(3,329.0)	1,052.0	(226.0)	38.0	14.8	111.6
Exceptional & other		(2,475.0)	(3,849.0)	(3,052.0)	(1,498.0)	(1,807.0)	(613.8)	(542.5)	(488.6)
Tax		(6.0)	(30.0)	(1,700.0)	(1,471.0)	(848.0)	(1,857.8)	(1,736.6)	(1,808.4)
Net operating cash flow		8,158.0	4,828.0	2,892.0	9,393.0	9,834.0	9,742.4	10,214.3	10,603.5
Capex		(3,877.0)	(3,458.0)	(8,548.0)	(2,325.3)	(1,575.0)	(4,321.3)	(5,535.8)	(5,673.5)
Acquisitions/disposals		(4,212.0)	(10,272.0)	0.0	(2,610.0)	(932.0)	0.0	0.0	0.0
Net interest		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity financing		0.0	0.0	2,419.0	0.0	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	(2,254.0)	(2,996.4)	(3,278.0)	(3,500.0)	(3,600.0)	(3,600.0)
Other		4,750.0	4,751.0	7,681.0	(6,885.8)	(1,925.0)	0.0	0.0	0.0
Net Cash Flow		4,819.0	(4,151.0)	2,190.0	(5,424.5)	2,124.0	1,921.1	1,078.4	1,330.0
Opening net debt/(cash)		(7,229.0)	9,674.0	17,660.0	19,093.0	17,647.8	13,640.5	11,719.3	10,640.9
FX		(270.0)	(8.0)	(14.0)	12.0	0.0	0.0	0.0	0.0
Other non-cash movements		(21,452.0)	(3,827.0)	(3,609.0)	6,857.7	1,883.3	0.0	0.0	0.0
Closing net debt/(cash)		9,674.0	17,660.0	19,093.0	17,647.8	13,640.5	11,719.3	10,640.9	9,310.9

Source: Edison Investment Research, Company data

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia