

Date 19 May 2021



RESULTS COMMENTARY

NWL delivered a mixed set of results which saw robust growth in profits from SA operations being offset by lower profits from offshore subsidiaries as the Group continues to navigate challenging trading circumstances.

- Revenue declined 8.9% to R1.4bn, with the local and offshore operations decreasing 3.7% and 24.4%, impacted by subdued consumer spending.
- Net income attributable to equity holders increased by 10.1% to R83.6m from R75.9m in the prior period. Income increased on the back of additional cost controls resulting in reduced overheads.
- NAV per share increased by 4.6% to R63.04 per share, benefiting from lower trade payables. NWL currently trades at a significant discount of more than ~50% to its NAV.
- HEPS increased by 10.5% to 389cps. No interim dividend has been declared.

OUTLOOK FOR NEXT REPORTING PERIOD

The outlook for the retail sector remains uncertain as challenging trading conditions and an unsupportive economic climate continue to hamper its road to recovery. Being in the branded consumer goods space, NWL's performance is highly correlated to the strength of the retail sector. The Group has adopted a cautious outlook on the retail sector's recovery over the next few months. It however remains optimistic about its performance for the remainder of the financial year.

Cost efficiencies, strengthening the balance sheet and the introduction of new product categories were at the forefront of the Group's focus as they continued to navigate challenging trading circumstances. The Group's Consumer electronics, Seasonal products and Liquor segments came under pressure during the period. LED TV price hikes, increases in freight rates and supply shortages during peak periods had a negative effect on the top-line revenue of the Consumer electronics segment. Restrictions on the sale of alcohol during the lockdown periods severely impacted the Liquor segment's performance while shortages in supply of the summer season range of products and lower than average summer temperatures put the Seasonal products segment under strain.

In contrast, the Furniture, Personal Protective Equipment (PPE) and Appliances segments managed to expand their service offering on the back of increased demand brought on by the Pandemic. The increase in the number of people working from home resulted in increased demand for home office equipment and furnishings which significantly benefited the Furniture segment. Management plans to position the segment as a leading retailer of home furnishings. The PPE segment benefited from the continuing need for protective equipment, rapid Covid-19 tests and IVD test kits that detect antibodies. New product launches by the Appliances segment were well received by the market and thus the segment plans to launch additional ranges in H2.

Going forward, the Group's focus is to grow both its local and offshore market share in the consumer electronics and branded consumer goods durable sectors. Management remains committed to exploring local opportunities and expanding the Group's offshore presence.

Management expects discretionary consumer spending to remain strained in the immediate future as reduced disposable income and stricter spending habits have become a reality for many. The Consumer Confidence Index (CCI) in South Africa improved slightly to -9 from -12 in the first quarter of 2021, bringing the index back to pre-lockdown levels. While the CCI has recovered to its highest level in a year, consumer confidence is likely to remain muted in the short to medium term as a slow vaccine rollout and the threat of more spikes in infections loom.

With discretionary spending by consumers unlikely to increase and challenging trading conditions expected to persist, we expect revenue to increase slightly by 3.0% to R2.7bn in FY21 as the Group stands better prepared to deal with the challenges presented by Covid-19. We expect revenue to normalise in FY22 at ~R3bn as the retail sector begins to recover.

NWL – Nu-World Holdings Limited FY21 Interim Results Equity Update

Valuation: **Undervalued**

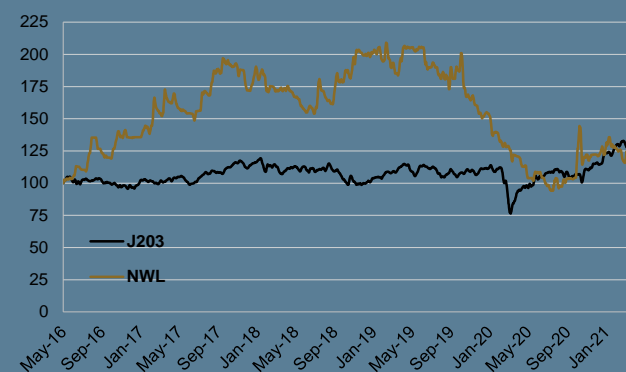
NWL released interim results on 21 April 2021 for the period ended 28 February 2021

Price (R)	29.74
PE Fair Value (R)	41.28
DCF Value (R)	37.02
Upside(Downside) to DCF (%)	24.5%
DY %	6.6%

Price Performance	Absolute	Relative to JALSH
1 month	10.1%	4.5%
3 month	13.7%	-5.9%
YTD	13.7%	-4.1%
12 month	High	Low
(SA Rands)	32.00	20.00

No. of shares (m)	23	Price (R)	29.74
NAV per share	63.04	Mkt cap (Rm)	668
EV (Rm)	627	Price/Book (x)	0.47

Financial Year	2019	2020	2021F	2022F
Turnover (Rm)	3032	2628	2706	3032
EBITDA	226	191	228	252
EBIT	223	188	211	239
PAT	161	127	150	169
HEPS (cents)	756.1	635.5	694.7	781.4
Dividend (cents)	288.4	195.4	277.9	312.6
P/E ratio	5.5	3.4	4.3	3.8
EV/EBITDA	3.9	1.9	1.8	1.6
EBITDA margin (%)	7.5%	7.3%	8.4%	8.3%
EBIT margin (%)	7.4%	7.1%	7.8%	7.9%
Net debt/equity	0.00	-0.08	-0.17	-0.17
ROCE (%)	18.7%	14.1%	14.6%	15.6%
ROE (%)	13.7%	10.4%	10.9%	11.5%



Contact us

13th Floor, Illovo Point
68 Melville Road
Sandton

research@merchantec.co.za
www.merchantec.co.za

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Attributable income as a percentage of revenue is forecast to increase to 6.0% in FY21 and 6.1% in FY22 as a result of cost saving initiatives. HEPS is forecast to increase by 9.3% to 695cps in FY21 and a further 12.5% to 781cps in FY22.

SEGMENTAL PERFORMANCE

The Group has two main divisions: South Africa and Offshore Subsidiaries.

Revenue from the **South Africa** operations decreased by 3.7% to R1.1bn due to challenging trading conditions and reduced consumer spending. Income attributable to equity holders increased by 69.0% to R61.5m. As a percentage of revenue, income attributable to equity holders increased to 5.6% from 3.2%.

The retail spending environment is beginning to show signs of improvement. However, trading conditions are still likely to remain strained in the short to medium term. Revenue from the South Africa division is expected to increase slightly by 4.0% to R2.0bn in FY21. Revenue is expected to return to pre Covid-19 levels of R2.3bn in FY22, representing an increase of 12.2%. Net income margin is expected to remain constant at 5.5% for both FY21 and FY22.

Revenue from the **Offshore Subsidiaries** operations decreased by 24.4% to R292m as a result of international and local travel restrictions and continuous price hikes in the cost of LED TV's. Income attributable to equity holders declined by 44.1% to R22.1m, resulting in the net income margin declining to 7.6% from 10.3%.

Management remains confident in the division's potential although many markets are still experiencing economic downturns. Revenue is forecast to remain constant at R674m in FY21 before increasing by 11.4% to R751m in FY22. Net income margin is expected to remain constant at 7.4% for both FY21 and FY22.

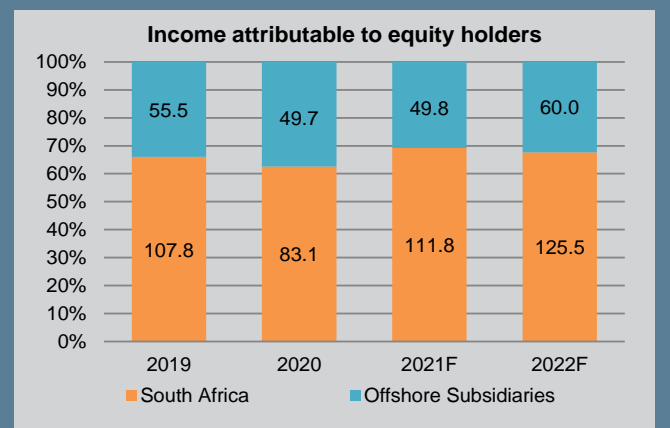
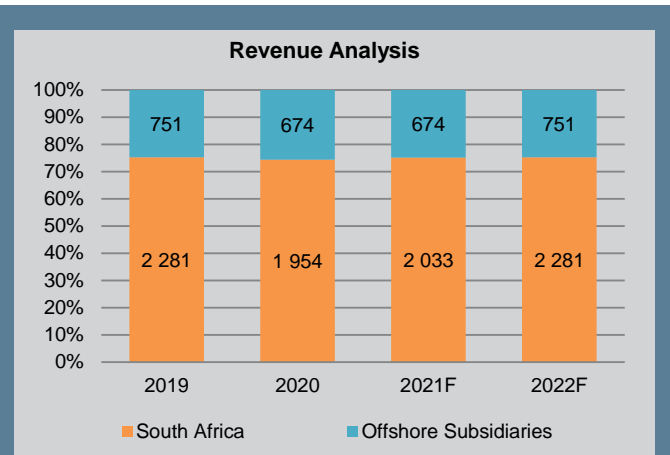
VALUATION

Despite poor expectations for the retail sector's performance, we maintain our bullish view on NWL. While our forecasts are conservative and our PE and DCF valuations point to some value in the short-term, what is attractive about NWL is the huge ~52.8% discount to NAV which we still believe should narrow as retail conditions improve. Investors can now obtain shares at a significant discount in a well-managed, undervalued business.

Both our DCF valuation and relative P/E valuation indicate that the share is **Undervalued**.

With reference to the DCF table on the right, we have considered a discounted cash flow analysis and with cash flows forecast to FY23. To yield our sensitivity table, a terminal growth rate of 6% was used, along with a discount rate of 22.6%¹ due to the risk associated with the retail sector. A strong price target of R37.02 is returned.

With reference to the relative P/E table on the right, we believe it is appropriate to compare NWL to consumer goods businesses and applied a 55% discount to the peer group, owing to the high P/E multiples of the peers used. The implied forward P/E valuation of 5.5x places NWL at a price of R41.28.



Growth rate	18.6%	20.6%	22.6%	24.6%	26.6%
0%	36.18	32.66	29.78	27.36	25.31
2%	39.31	35.11	31.72	28.94	26.61
4%	43.29	38.13	34.09	30.82	28.14
6%	48.54	41.99	37.02	33.11	29.97
8%	55.76	47.07	40.75	35.95	32.18
10%	66.33	54.05	45.66	39.56	34.93
12%	83.25	64.27	52.42	44.32	38.43

Consumer Goods	Price	Mkt cap (m)	1 year fwd PE
Woolworths	53.85	56056	16.5
Pick n Pay Stores	56.85	27813	17.0
Lewis	33.88	2403	11.9
Homechoice	21.00	2222	12.8
Truworths	51.49	22434	10.6
Nu-World	29.74	668	3.9
Average			12.1
*consensus forecasts used			-68%
Nu-World	29.74	668	3.9
Premium (Discount) applied to average:			-55.0%
Nu-World: Implied current gain/(loss):	41.28	39%	5.5

¹ The discount rate is based on the average implied discount rate obtained from cash flow forecasts for companies with market capitalisations ranging from R301m to R10bn in our research universe

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