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Temple & Webster (TPW)

Next leg of growth on the horizon, upgrade to Buy

Recommendation

Buy (Hold)

Price

\$8.83

Target (12 months)

\$12.10 (previously \$12.75)

GICS Sector

Retailing

Expected Return

Capital growth	37.0%
Dividend yield	0.0%
Total expected return	37.0%

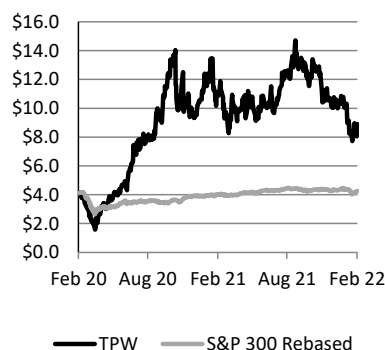
Company Data & Ratios

Enterprise value	\$1,033m
Market cap	\$1,132m
Issued capital	128.2m
Free float	~70%
Avg. daily val. (52wk)	\$8.3m
12 month price range	\$7.46 - \$15.00

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	10.05	12.46	10.16
Absolute (%)	-11.34	-28.49	-12.30
Rel market (%)	-9.73	-25.83	-19.56

Absolute Price



Solid result, Home Improvement adds new growth horizon

TPW announced 1H22 revenue of \$235.4m (vs BPe \$231.4m), up +46% YoY. 1H22 EBITDA of \$12.0m was in line vs our \$11.9m estimate. Key highlights of the result are:

- **Revenue growth holding up well vs difficult backdrop:** 1H22 revenue growth of +46% (cycling +118%) compares with +56% growth to 15 Oct'21, implying only a modest slowing exiting the half despite the end of lockdowns. **Entering 2H22, revenue growth remains solid** with 2H-to-date revenue up +26% YoY (cycling >100%) despite softness in the broader consumer market due to omicron.
- **1H22 EBITDA margin of 5.1%, although full year EBITDA margin guide of 2-4% reaffirmed:** TPW previously provided EBITDA margin guide of 2-4% during its 'scale up' phase. The company reaffirmed this range for FY22, although 1H22 was above at 5.1% due to the timing of investments (as guided at TPW's AGM).
- **New growth horizons gaining traction and materially expand TAM:** Trade & Commercial (~7% of revenue) increased +49% YoY despite lockdown disruptions while TPW's new Home Improvement offering (~4% of revenue) lifted +95%. The Home Improvement horizon represents a ~\$16b addressable market, expanding TPW's TAM to ~\$35b (incl. B2C ~\$16b / B2B >\$3b / Home Improvement ~\$16b), whilst also being counter cyclical to the housing market (moving vs renovating).
- **Net cash ~\$105.5m; we believe bolt-on acquisition(s) could be on the cards in CY2022:** Net cash of \$105.5m (vs end-FY21 \$97.5m), provides ample capacity to make bolt-on acquisitions, such as in digital capability, product range, brand awareness, or to accelerate growth in TPW's B2B / Home Improvement offerings.

Investment view: Upgrade from Hold to Buy, PT \$12.10

We have moderated our revenue growth forecasts as conservative measure in a rising interest rate environment, although we are yet to allow for upside from TPW's Home Improvement offering. The net effect is our PT reduces to \$12.10 (previously \$12.75). Following TPW's share price retreat, we believe valuation is now more appealing with FY23e EV/sales ~1.8x. Also, TPW's new growth horizons (B2B / Home Improvement), the structural shift to online plus M&A prospects, provide attractive offsetting benefits vs potential risks from the housing cycle. Accordingly, we upgrade from Hold to Buy.

Earnings Forecast

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	326.3	441.2	579.5	753.9
EBITDA (A\$m)	20.5	15.1	19.3	28.7
NPAT (reported) (A\$m)	14.0	8.5	10.8	17.6
NPAT (underlying) (A\$m)		8.5	10.8	17.6
EPS underlying (cps)	11.0	6.6	8.4	13.8
EPS underlying growth (%)	66.4%	-39.9%	26.5%	64.0%
PER (on underlying EPS) (x)	80.1	133.1	105.2	64.2
EV/Sales (x)	3.2	2.3	1.8	1.4
EV/EBITDA (x)	50.4	68.3	53.4	36.0
Dividend (€ps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-

Headline 1H22 result in line with BPe

Headline result

TPW announced 1H22 revenue of \$235.4m, up 45.7% vs pcp, and broadly in line with our \$231.4m estimate. 1H22 EBITDA of \$12.0m was in line with our \$11.9m estimate, with the 1H22 EBITDA margin coming in at 5.1% and matching our estimate.

Figure 1 provides a summary of the result.

Figure 1 - Actual vs expected summary										
	Actuals History (FY20 and beyond is post AASB-16)						Actual 1H22	Expected 1H22e		Actual vs Expected
	1H20	2H20	FY20	1H21	2H21	FY21				
Total Revenue	74.1	102.2	176.3	161.6	164.7	326.3	235.4	231.4		1.7%
% - Growth (pcp)	50.1%	95.7%	73.5%	118.0%	61.2%	85.1%	45.7%			
EBITDA	2.3	6.2	8.5	14.8	5.7	20.5	12.0	11.9		1.3%
%-Margin	3.1%	6.1%	4.8%	9.2%	3.4%	6.3%	5.1%	5.1%		0.0%
% - Growth (pcp)										
Deprn & Amort.	-0.3	-0.3	-0.6	-0.5	-1.1	-1.6	-1.5	-1.0		48.5%
EBIT	2.0	5.9	7.9	14.3	4.6	18.9	10.6	10.9		-2.8%
%-Margin	2.6%	5.8%	4.5%	8.9%	2.8%	5.8%	4.5%	4.7%		-0.2%
% - Growth (pcp)										
Net Interest	0.1	0.1	0.2	0.2	0.1	0.3	0.4	0.6		
Profit before Tax	2.0	6.0	8.0	14.5	4.6	19.2	10.9	11.5		-4.8%
Tax	0.0	0.0	0.0	-2.4	-2.8	-5.2	-3.4	-2.6		
Associates/Minorities	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0		
Underlying NPAT	2.0	6.0	8.0	12.2	1.8	14.0	7.3	8.9		
%-Margin	2.8%	5.9%	4.6%	7.5%	1.1%	4.3%	3.1%	3.8%		
% - Growth (pcp)										
Abnormals post tax	0.9	5.0	5.9	0.0	0.0	0.0	0.0	0.0		
Reported NPAT	2.9	11.0	13.9	12.2	1.8	14.0	7.3	8.9		
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

2H22-to-date trading update / Outlook comments:

- 2H22-to-date (to 6 Feb'22) revenue growth of +26% (cycling growth of >100%).
- Full costs of 1H22 investments will materialise in 2H22. FY22 EBITDA margin range of 2-4% reaffirmed.
- TPW will continue to reinvest operating leverage where it makes sense to do so.

Temple & Webster (TPW)

Company Description

Temple & Webster (TPW) is Australia's largest online only furniture and homewares retailer with over 180,000 products on sale from over 700 suppliers. The TPW e-commerce platform includes the integration of ZIZO (formerly Wayfair Australia) and Milan Direct, all now trading under the Temple & Webster brand. TPW targets the 'impulse' buyer looking for a discovery experience as well as the 'intent' buyer seeking a planned purchase.

Investment Strategy and Valuation

We rate TPW as Buy, price target of \$12.10 based on a blend of EV/Sales and discounted cash flow valuation (WACC 10.0%, Terminal growth 3%) methodologies. With the business now profitable, TPW will seek to accelerate top-line growth through a number of initiatives including: adding depth and breadth across core categories, expand private label offering, expand into adjacent categories, leverage scale to obtain cost advantage and exclusivity on new product ranges, increase brand awareness through digital & non-digital channels, accelerate investment into trade & commercial division, and expand into new geographies.

Risks

- **COVID-19:** The substantial impact of COVID-19 on the global & domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.
- **Cyclical risk:** We believe TPW is exposed to the **housing turnover cycle** & strength in **consumer sentiment**. A material deterioration in these factors may impact earnings.
- **Rate of migration to online platform risk:** Growth in online retail penetration is a key aspect of TPW's investment thesis. A lower rate of migration online may impact operating performance.
- **Competition risk:** As the online market matures competition may increase resulting in TPW losing some of its competitive advantage, possibly impacting its financial position and operating margins.
- **Reputation and brand risk:** Given TPW's online nature, reputation and brand recognition is particularly important. A loss of reputation and customer loyalty could impact repeat purchase behaviour and impact financial performance.
- **Key staff risk:** Loss of key staff including its founders, and the inability to replace them in a timely manner may impact TPW's financial performance.
- **Changes in technology risk:** TPW's business relies on the performance of its online platform at a time when technology is continually evolving ecommerce sites. TPW's operating performance could be impacted if its technology does not provide an improved customer experience as technology changes.
- **SEM price risk:** TPW utilises a number of methods to attract website traffic, however its reliance on Search Engine Marketing (SEM) may increase. If competition materially increases, TPW's reliance on SEM and the cost of SEM may increase, impacting financial performance.
- **Supplier risk:** TPW has agreements with a large number of suppliers. There is a risk of non-renewal of contracts, deterioration in supplier relationships and the risk suppliers may not have sufficient stock to meet demand.

Table 1 - Financial summary

Jun Year end	2019	2020	2021	2022e	2023e	2024e
Profit & Loss (A\$m)						
Sales revenue	101.6	176.3	326.3	441.2	579.5	753.9
... Change	40.0%	73.5%	85.1%	35.2%	31.3%	30.1%
EBITDA	1.1	8.5	20.5	15.1	19.3	28.7
... Change						
Deprec. & amort.	(0.3)	(0.2)	(1.6)	(3.0)	(4.7)	(5.1)
EBIT	0.8	7.9	18.9	12.1	14.7	23.5
Net Interest	0.1	0.2	0.3	0.6	0.7	1.7
Pre-tax profit	1.0	8.0	19.2	12.7	15.4	25.2
Tax expense	(0.1)	-	(5.2)	(3.9)	(4.6)	(7.6)
... tax rate	12%	0%	27%	31%	30%	30%
Associates	-	-	-	(0.3)	-	-
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	0.9	8.0	14.0	8.5	10.8	17.6
... Change	n/a	826.5%	73.7%	-39.0%	26.5%	64.0%
Abs. & extras.	2.9	5.9	-	-	-	-
Reported Profit	3.8	13.9	14.0	8.5	10.8	17.6
Cashflow (A\$m)						
EBITDA	1.1	8.5	20.5	15.1	19.3	28.7
Working capital changes	0.3	10.2	(3.7)	5.6	0.2	5.2
Net Interest Expense	0.1	0.2	0.3	0.3	0.7	1.7
Tax	-	-	-	(3.4)	(3.5)	(6.0)
Other operating items	2.6	6.6	7.4	(0.1)	1.9	2.3
Operating Cash Flow	4.2	25.5	24.5	17.6	18.7	31.8
Capex	(0.3)	(0.2)	(1.1)	(3.5)	(2.9)	(3.6)
Free Cash Flow	3.8	25.3	23.4	14.1	15.8	28.1
Acquisitions	(0.2)	(0.3)	(0.4)	(1.7)	-	-
Disposals	0.0	-	-	-	-	-
Payment of leases	-	-	-	(2.0)	(2.0)	(2.1)
Dividends paid	-	-	-	-	-	-
Other investing items	-	-	(1.0)	-	-	-
Equity	(0.0)	(0.0)	38.3	3.7	-	-
Debt increase/(reduction)	-	-	-	(6.1)	(13.8)	(26.0)
Balance Sheet (A\$m)						
Cash	13.5	38.1	97.5	107.5	121.2	147.1
Receivables	0.1	0.1	0.1	0.1	0.2	0.2
Inventories & WIP	3.5	6.6	21.3	19.6	25.9	33.6
Other current assets	1.6	3.5	5.3	3.9	3.9	3.9
Current Assets	18.8	48.2	124.2	131.1	151.2	184.8
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	2.4	2.4	2.4
Fixed Assets (PP&E)	0.5	0.5	1.2	3.9	4.3	5.3
Right-of-use Assets	-	1.4	7.0	6.1	6.2	6.4
Intangibles	7.6	7.9	8.1	8.2	8.2	8.2
Other non-curr assets	3.5	9.4	7.9	7.0	7.0	7.0
Non Current Assets	11.6	19.1	24.1	27.6	28.2	29.3
Total Assets	30.3	67.3	148.3	158.7	179.4	214.1
Short term debt	-	-	-	-	-	-
Creditors	8.9	22.1	33.2	37.1	43.7	56.6
Provisions	1.5	3.1	8.2	10.9	12.5	14.6
Other curr liabilities	4.4	10.6	17.3	15.8	15.8	15.9
Current Liabilities	14.7	35.8	58.6	63.7	72.0	87.1
LT debt (incl. leases)	-	0.1	5.1	-	-	-
Creditors	-	-	-	-	-	-
Provisions	0.4	0.6	0.6	0.8	1.1	1.4
Other non curr liabilities	-	-	-	-	-	-
Non Current Liabilities	0.4	0.7	5.7	0.8	1.1	1.4
Total Liabilities	15.1	36.6	64.3	64.5	73.1	88.4
Net Assets	15.2	30.7	84.0	94.2	106.3	125.7
Share Capital	76.6	76.6	115.4	119.1	119.1	119.1
Reserves	2.6	3.5	4.7	5.5	5.5	5.5
Retained Earnings	(64.0)	(50.1)	(36.1)	(30.4)	(18.2)	1.2
Shareholders Equity	15.2	30.0	84.0	94.2	106.3	125.7
Outside Equity Interests	-	-	-	-	-	-
Total Equity	15.2	30.0	84.0	94.2	106.3	125.7
Core Net debt/(cash) \$m	(13.5)	(39.3)	(97.5)	(111.7)	(125.5)	(151.5)
Net debt/(cash) [incl. leases] \$m	(13.5)	(37.9)	(90.4)	(105.5)	(119.1)	(145.0)

Price	\$8.83
Recommendation	Buy
Diluted issued capital (m)	128.2
Market cap (\$m)	1,132.4
Target Price (A\$ps)	\$ 12.10

Jun Year end	2019	2020	2021	2022e	2023e	2024e
Valuation Ratios						
Underlying EPS (cps)	0.7	6.6	11.0	6.6	8.4	13.8
... % change	n/a	806.6%	66.4%	-39.9%	26.5%	64.0%
PE (on underlying EPS) (x)	1,207.9	133.2	80.1	133.1	105.2	64.2
EV/EBITDA (x)	934.0	121.5	50.4	68.3	53.4	36.0
EV/EBIT (x)	1,229.8	131.4	54.7	85.1	70.5	43.9
EV/Sales (x)	10.2	5.9	3.2	2.3	1.8	1.4
NTA (\$ps)	0.06	0.19	0.59	0.67	0.76	0.92
P/NTA (x)	140.47	46.79	14.92	13.17	11.55	9.64
Book Value (\$ps)	0.13	0.25	0.66	0.73	0.83	0.98
Price/Book (x)	70.33	34.83	13.48	12.02	10.65	9.01
DPS (cps)	-	-	-	-	-	-
... % pay-out	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-	-	-

Performance Ratios						
Revenue growth (%)	40.0%	73.5%	85.1%	35.2%	31.3%	30.1%
EBITDA growth (%)	-297.5%	668.5%	141.2%	-26.2%	27.9%	48.1%
EBITDA/sales margin (%)	1.1%	4.8%	6.3%	3.4%	3.3%	3.8%
EBIT/sales margin (%)	0.8%	4.5%	5.8%	2.8%	2.5%	3.1%
Gross cash conversion (%)	363.5%	298.0%	118.2%	139.4%	111.0%	126.3%
Free cash-flow yield (%)	0.4%	2.4%	2.1%	1.2%	1.4%	2.5%
ROE (%)	6.5%	37.8%	21.5%	9.4%	10.6%	15.1%
Capex/Depn (x)	1.2	1.0	2.9	4.3	1.2	1.3

Net interest cover (x)	n/a	n/a	n/a	n/a	n/a	n/a
Core Net Debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a	n/a
Net debt/equity (%)	-89.0%	-126.6%	-107.7%	-112.0%	-112.1%	-115.3%
Net debt/net debt + equity (%)	n/a	n/a	n/a	n/a	n/a	n/a

Half yearly (A\$m)	2H19	1H20	2H20	1H21	2H21	1H22
Sales revenue	52.2	74.1	102.2	161.6	164.7	235.4
EBITDA	0.2	2.3	6.2	14.8	5.7	12.0
Deprec. & amort.	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)
EBIT	0.1	2.0	5.9	14.3	4.6	10.6
Interest expense	0.1	0.1	0.1	0.2	0.1	0.4
Pre-tax profit	0.2	2.0	6.0	14.5	4.6	10.9
Tax expense	(0.1)	-	-	(2.4)	(2.8)	(3.4)
... tax rate	61%	0%	0%	16%	61%	31%
Associates	-	-	-	-	-	(0.3)
Minorities	-	-	-	-	-	-
Underlying Net Profit	0.1	2.0	6.0	12.2	1.8	7.3
Abs. & extras.	0.7	0.9	5.0	-	-	-
Reported Profit	0.7	2.9	11.0	12.2	1.8	7.3

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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