29 AUG 2022

ASX Top 200 Stocks Down Under

> *Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man.*

- Ronald Reagan (1911-2004), 40th President of the United States

JB HI-FI

Maybe it's not so discretionary after all

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Stocks Down Under rating: ★★★★

ASX: JBH
Market cap: A$4.6BN

52-week range: A$36.69/ A$56.85
Share price: A$42.48

Amidst 4-decade high inflation, ASX stocks in the consumer discretionary sector have been amongst the worst hit. Most of them have tried to persuade investors that they'll be immune, arguing their goods really are essential items that consumers won't cut back on. For the most part, those pleas have fallen on deaf ears and so it was the case with JB Hi-Fi (ASX: JBH) too. That is, until its FY22 results.

Share price chart

Source: Tradingview

JB Hi-Fi is one of those companies that needs little introduction, in being Australia's pre-eminent retailers, selling consumer electronics and home appliances. It was founded in 1974, listed on the ASX in 2003 and today has over 300 stores in Australia and New Zealand. In addition to the stores bearing its name, it also owns the Good Guys, having purchased it for $870m in 2016, in an aim to increase its market share.

Defying consensus estimates

This is the third time we have written about JB Hi-Fi. The first of these was in June 2020, [when the company was unexpectedly growing throughout COVID-19]. The company was proving its doubters wrong that it could compete online. And it was seeing an unexpected boom from customers looking through products that would help them both work and relax at home during lockdowns. Still, we gave it two stars thinking the boom wouldn't last.

The second time we covered the company was 18 months later, [in December 2021], when we observed the boom had continued for longer than us, or any other analysts, had anticipated. We gave it three stars, thinking it would grow in the long-term, but not in the short term, judging by consensus estimates.

Now, in August 2022, you could argue investors have reason to fear a similar situation. Consensus estimates forecast a 2.9% drop in revenue from $9.2bn to $9.0bn. The company's share price alone at over $40 may make you think it is expensive but remember that it is only a function of market capitalisation and shares on

issue. It has just over 100m shares on issue and is capitalized at ~$4.8bn. JBH looks cheap on a multiples basis at 6.4x EV/EBITDA and 11.7x P/E, although less so if you believe the FY23 consensus estimates of revenue.

Is it really a 'discretionary'?

The company has been sold down in CY22, sitting 9% lower than it began the year, but bottomed out in late June and has grown nearly 20% since then. Yes, the market has been a catalyst, but the company's results have also helped. In mid-July, it released unaudited results showing $9.2bn in sales, $794.6m in EBIT and $544.9m in NPAT, representing growth of 3.5%, 6.9% and 7.7% respectively. As for EBITDA, it came in at $681.4m, which was up 3.5% from FY21.

The company also released sales figures for 4Q22, which showed 11.6% sales growth for its Australian franchise and 7.7% for New Zealand. A month later, it delivered these exact results. Further good news for shareholders was that online sales grew 53% to $1.6bn, which is 4 times higher than just three year ago. With a ~25% online penetration rate, it beats many retailers, including Bunnings (at under 5%), K-Mart and Big W (under 15%). It slightly trails David Jones and Myer (at 28%) and is way behind Officeworks (at over 45%). The company's final dividend was $3.16 per share, up 10.1%, which represents a yield of over 7%, which is higher than the rate of inflation.

No formal guidance was given for FY23, but the company reiterated its July sales and told investors that inflation-hit consumers would 'gravitate to trusted value-driven retailers'.

Our verdict

There are some reasons to doubt the company. As we already mentioned, consensus estimates suggest declining revenue. But you could also say that the FY22 result did not reflect the inflationary environment and forthcoming results will. Whether they will or not depends on to what extent you think consumers will cut back on their spending on electronics. We think the Good Guys segment could see a retreat, but the JB Hi-Fi segment could perform enough to make up for it.

Looking to the US, the closest comparable company, Best Buy (NDQ: BBY), is being hit by inflation, expecting sales for 3Q22 to fall 13%, having estimated just an 8% drop only a few months earlier. But its share price has held up because it has lacked the inventory glut its peers have experienced and even though sales have slowed, they are still higher than before the pandemic.

Another worry for JB Hi-Fi is competition from Amazon, but you could argue it is well placed with its omnichannel business model. That leads us on to one thing you don't have to worry about: supply chain issues. JBH has historically had low capex and has a healthy balance sheet.

Ultimately, although we would be more encouraged if JB Hi-Fi had issued guidance for FY23, we are willing to give the company the benefit of the doubt considering it has defied investor pessimism before. We accept it will all come down to whether consumers cut back their spending on electronics. But assuming that inflation will peak at its current levels, its four stars from us.

Pitt Street Research Pty Ltd

3 Spring Street, Sydney, NSW 2000, Australia

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