STOCKS DOWN UNDER

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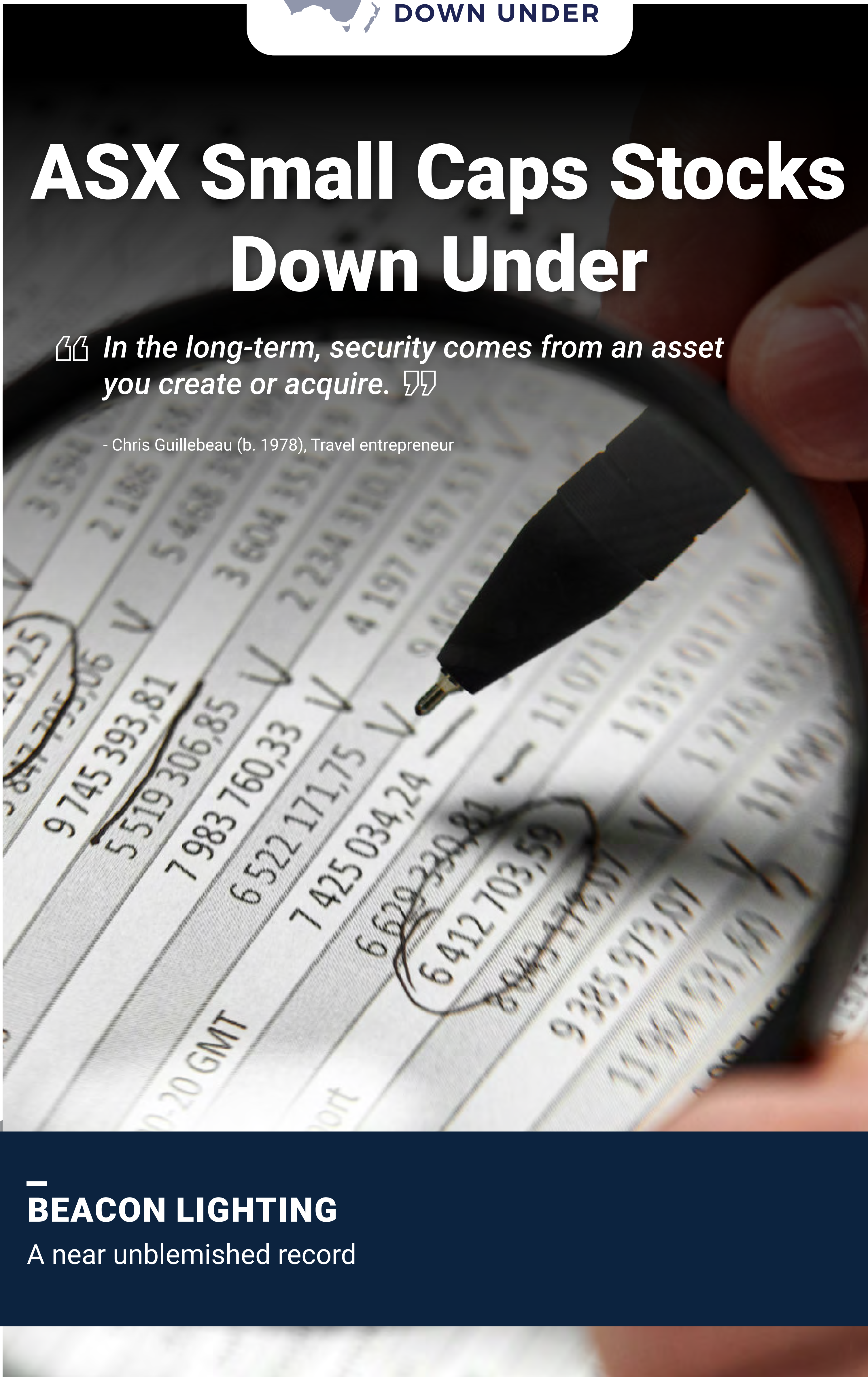
ASX Small Caps Stocks Down Under

In the long-term, security comes from an asset you create or acquire.

- Chris Guillebeau (b. 1978), Travel entrepreneur



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Stocks Down Under rating: ★★★★

ASX: BLX
Market cap: A$428.8M

52-week range: A$1.66 / A$3.39
Share price: A$1.99

Few companies on the ASX have such a long-term track record of growth as Beacon Lighting (ASX: BLX). The family-owned company sells lights and fans to retail and trade consumers and is the largest company in its industry. But Beacon's share price has not had a positive year, retreating 18% in 12 months. Does this represent an opportunity to buy a compelling business at a more reasonable price or has the share price fallen for good reasons?

Share price chart

Source: Tradingview

Decades of growth

Beacon Lighting listed in 2014 at 66c a share. It opened its first store in 1967 and slowly expanded over time – owning 71 owned stores, 14 franchised stores and four commercial sales stores by the time it listed in 2014. It was founded by Ian Robinson who remains Executive Chairman and his son Glen is now the CEO, having worked for the group since 1994 and having been in the top job since 2013. The company's mission is 'to brighten our customers' lives with exciting products that are environmentally friendly and fashionable through expertise and unparalleled service'.

Since listing, Beacon has not raised a cent in capital and is still 55% owned by the Robinson family. At the time it listed it had \$11.5m in net profit and \$17.2m EBITDA on sales of \$150m. It had consistent 15-20% annual profit growth since 1995. Since listing there has been further expansion.

Beacon now owns 117 stores and 2 franchised stores and these generated \$304.3m in sales (up 5.4%), \$92.7m in EBITDA (up 7.8%) and a \$40.7m NPAT (up 8.2%) in FY22. It has also grown online sales to \$34.1m, up 31% from FY21, which now represent 12.9% of total sales. The company paid a dividend of 9.3c a share representing a yield of 4.7% at the current share price. It has a cash balance of \$28.0m and net cash of \$8.4m. It has relatively modest capex of \$9.6m, which is less than 3% of sales. On top of all this, it has a loyalty program with 928,000 people (over 3.5% of Australia's population). It must be doing something right.

A bigger boom than the lockdown spending spree

We all know that consumers spent more on home improvement products during the pandemic. And this has impacted Beacon's sales during the COVID years. But in the longer term, the company is hoping to capitalise on broader trends in the lighting industry, like sustainability and energy efficiency. We think the latter will be relevant given the current highs in electricity prices.

We also think that the company can continue to expand in Australia and overseas. At home, the company thinks there is potential for 184 stores based on store network research. And overseas, it has set up showrooms and warehouses in Hong Kong, the Netherlands, Germany, China as well as three in the US to attempt to penetrate the market with its products. You won't be seeing Beacon branded stores over in the USA, but it will sell into local lighting stores, which tend to be small, family-owned businesses (one example being Lamps Plus) as well as through Ecommerce outlets (Amazon in the US and TMall in China and Hong Kong). You may also see Beacon representatives at major lighting shows now that conferences are back.

Will it go backwards in FY23?

The company has not provided guidance for FY23, but has told shareholders it anticipates growth. It will open five new stores (two of which will be large format at Auburn in NSW and Southport in Queensland) and has just re-launched its Trade Club, a loyalty program for its tradie customers.

Consensus estimates aren't so convinced. These suggest EBITDA will fall 14% to $80.1m in FY23, but revenues are expected to edge 2.3% higher, to $311.4m. For FY24, consensus estimates suggest Beacon will generate $323.5m in revenue and $81.4m in EBITDA – up 3.9% and 1.6%.

Why is consensus so negative for FY23? We think there are three issues. First, supply chain issues may hit Beacon, with the company having some of its manufacturing in China. Second, fears that consumers will cut back on spending because of the global economic slowdown. And third, the company will likely be hit by the depreciating AUD given most products sold are purchased in USD.

We think Beacon will be fine

Obviously, there is no evidence that any of these issues are occurring, at least to the extent that they are visible in the company's results. The company's supply chain is significantly diversified and it has used forward forex contracts to mitigate currency risks.

The current environment is uncertain, but this company has survived countless market cycles, thereby giving confidence that it can weather what lies ahead. It's cheap multiples of 7x EV/EBITDA and 13.3x P/E are just the icing on the cake. So. It's four stars from us.

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