

Sales growth exceeds 30% so far in FY2024

10th August 2023

Marks Electrical Group (MRK) released a trading update ahead of its AGM today. The company enjoyed strong trading in the first four months of its FY2024 financial year as enhanced delivery options, sustained high service quality levels and more widespread brand awareness helped the company to over 30% sales revenue growth in the period, compared with nearly 14% a year earlier. With further benefits of strong cash conversion – consistent with a proposed 0.66p final FY2023 dividend – we reiterate our fair value of 150p for the shares.

MRK's 30.7% annual sales growth in the four months to end-July 2023 compared with 13.7% a year earlier and the over 30% growth for April and May on which we commented in our 14th June report: [Built in installations enhance growth outlook](#). Notably fast growth product categories included televisions (+84%), washer dryers (+83%) and cordless vacuum cleaners (+62%).

Market share gains remain central to the growth case for MRK, with clear headroom for further regional expansion. Major Domestic Appliances share increased to 3.0% from 2.4% a year earlier with online share growing from 4.5% to 5.7%. Moreover, Consumer Electronics share doubled from 0.3% to 0.6%, with a 0.6% to 1.0% increase in online.

Next day integrated – i.e. built-in – installations are an important addition to the MRK delivery offering, which appears to have enhanced not only market share but also reputation. The company's Trustpilot score remained at 4.8 with 95% of its 50,000 reviews receiving 4 and 5-star responses. Installation orders, which increased by 200% to 4,500 from 1,500 a year earlier, may be expected to be a source of further market share gains going forward.

The Group's financial strength remains noteworthy, with end-FY2023 net cash on the balance sheet at £10m. Furthermore, in that financial year the company's operating cash conversion rate was reported to be 118%. Sustainable cash conversion, driven by efficient working capital management and a focus on costs, supports the case for a robust, sustainable dividend pay-out policy. We forecast further significant dividend increases in the next two financial years.

Significant potential upside to our 150p fair value

Today's AGM trading update delivered a clear message that Marks Electrical is capable of delivering consistent market share gains and cash conversion. The company continues to innovate in terms of service provision and constantly improve its performance on working capital and costs. **As a result, we confidently maintain our 150p fair value for the shares**, which implies FY2024 EV/sales of 1.3x and 16.2x FY2024 EV/EBITDA based on our current (unchanged) forecasts.

Key Financials						
Year to 31st March	2020A	2021A	2022A	2023A	2024E	2025E
Revenue (£m)	31.5	56.0	80.5	97.8	114.5	131.4
Revenue growth (%)	0.8	77.7	43.8	21.5	17.2	14.8
EBITDA (£m) (adj)	1.3	7.7	7.2	7.5	8.9	11.3
EPS diluted (adj) (p)	0.66	5.05	5.01	4.82	5.37	7.30
DPS (p)			0.67	0.97	1.08	1.36
EV/sales (x)	2.7	1.5	1.1	0.9	0.8	0.6
EV/EBITDA (x)	67.2	11.2	11.9	11.4	9.6	7.2
P/E ratio (x)	143.4	18.7	18.8	19.5	17.6	12.9
Yield (%)			0.7	1.0	1.1	1.5

Source: ED estimates, company historic data

Company Data

EPIC	MRK
Price (last close)	94p
52 weeks Hi/Lo	101p/55p
Market cap	£99m
ED Fair Value/share	150p

Share Price, p



Source: ADVFN

Description

Marks Electrical Group PLC (MRK) is a fast growing online electrical goods retailer, which was founded by its current CEO Mark Smithson in 1987. MRK focuses on premium branded Major Domestic Appliances, which it can deliver with its in-house wholly owned fleet of vehicles to more than 99% of the English population on a next day basis.

The company operates from a single site in Leicester, which also houses its headquarters.

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