

Trading Update – resilient and generating cash

24th October 2022

In a Trading Update for the six months to 30 September, Supreme reports that Group performance remains in line with market expectations for the full year, reiterating the positive message of the 15th September AGM.

In particular, the **Vaping division**, which we estimate to comprise 46% of FY23 revenue and 71% of FY23 gross profit, is reported to have continued on a **strong growth trajectory**, with organic growth boosted by the acquisition of Liberty Flights, and latterly, Cuts Ice Ltd., and Flavour Core Ltd.

As noted at FY22 results on the 5th July, the Lighting division experienced a slowdown during the period; however Supreme notes early indications of improvement in retail demand in September and early October indicating that the hiatus was temporary. As reported in FY22 results, Lighting division revenue growth had slowed from +18.4%YoY in H1 to -6.3%YoY in H2 22.

Supreme noted that all other divisions - Batteries (26.7% of FY22 revenue), Sports & Nutrition (12.2%) and Branded Household Goods (7.2%) - remained “**profitable, resilient and highly cash generative**”.

Against a positive overall outlook, the Group remains focused on both organic growth and the process of integrating recent acquisitions in the Vaping division: Cuts Ice with its presence in European markets, and Flavour Core’s vape flavouring OEM connections.

Supreme will report Interim results on 29th November, together with a [presentation to investors](#).

Value market niche

Notwithstanding the headwinds - and cross currents - buffeting the UK political and economic outlook, this is a **positive Trading Update**. Supreme occupies a market niche which emphasises **value for money** in its product lines whilst representing a positive alternative to the threats to health represented by cigarette smoking - as backed by the government’s *Smokefree 2030* initiative.

Based on our outlook, Supreme currently trades on a FY23 E EV/EBITDA of 4.6x and offers a yield of 6.4%. We include a valuation update based on sector-specific peers in the Distribution, Consumer Staples and Tobacco markets cross-referenced against the relevant divisional contributions to Supreme’s gross profits. **Our Fair Value remains 190p/share**.

Financial outlook to 31 March 2024

Yr to March 31 (£m)	2020	2021	2022	2023E	2024E
Revenue	92.3	122.3	130.8	129.5	142.2
EBITDA (adj)	16.0	19.3	21.1	17.5	22.2
EPS (adj, p)	10.1	11.8	12.4	9.3	11.7
FCFS (p)	15.5	11.1	10.1	11.6	13.3
DPS (p)	10.0	2.7	2.2	4.7	2.6
Net debt / (cash)	21.3	7.6	4.0	4.7	(3.8)
EV/EBITDA	5.0x	4.2x	3.8x	4.6x	3.6x
P/E	7.2x	6.2x	5.9x	7.8x	6.2x
FCF yield	21.2%	15.1%	13.8%	15.9%	18.3%
Div yield	13.7%	3.7%	3.0%	6.4%	3.6%

Source: Company data, Equity Development estimates.

Company Data

EPIC	SUP
Price (last close)	73p
52 weeks Hi/Lo	245/70p
Market cap	£85m
ED Fair Value	190p
Net debt (cash) £m	4.7

Share Price, p



Source: LSE

Description

Formed in 1975, Supreme Imports is a leading European and UK manufacturer, supplier and brand owner of fast-moving consumer products. It supplies five key categories of consumer spending: Vaping, Sports Nutrition & Wellness, Batteries, Lighting and Branded Household Consumer items.

Its customer base includes leading brands such as Costcutter, B&M, ASDA, TK Maxx, Poundland, Sainsbury’s, Home Bargains, Heron Foods, Booker, Bestway, Aldi, Tool Station, Range, Travis Perkins and Nisa.

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Valuation considerations

Our fair value is cross-referenced against the current one year forward earnings-based market multiples of a blend (market cap-weighted) of representative companies in the market segments Supreme addresses, namely: **Distribution** - Diploma PLC, Bunzl, Ferguson, Travis Perkins; **Consumer staples** - Unilever, P&G, Nestle, Walmart, Pepsico, Reckitt; **Tobacco** - BATS, Philip Morris, Altria, Imperial Brands; **AIM sector** peers - Parsley Box, Accrol, IG Design, Kitwave, Uniphar.

The blended fair value indicated is based on our estimated FY23 and FY24 Supreme PLC (adj.) EBITDA, and data available on the allocation of gross profitability, resulting in an indicated:

- Based on FY23 E (adj.) EBITDA of £17.5m: 176.2p/share.
- Based on FY24 E (adj.) EBITDA of £22.2m: 224.2p/share.
- The average of the FY23 and FY24 valuation exercise supports our Fair Value of 190p/share.

Blended sector-based comparative valuation

EV based on FY23E EBITDA	% of gross	Peers	EV/ EBITDA	EV £m
Batteries	10.0%	Distributors	9.4x	16.5
Lighting	10.6%	Distributors	9.4x	17.5
Vaping	70.5%	Tobacco	12.3x	152.0
Sports Nutrition & Wellness	6.1%	Staples	15.3x	16.3
Branded HH Goods	2.9%	Staples	15.3x	7.8
EV indicated (£m)				210.1
Indicated EV/EBITDA multiple				12.0x
FY23 E Net debt (£m)				4.66
FY23 E indicated equity (£m)				205.44
Per share value indicated (p)				176.2
EV based on FY24E EBITDA	% of gross	Peers	EV/ EBITDA	EV £m
Batteries	8.8%	Distributors	9.4x	20.9
Lighting	13.9%	Distributors	9.4x	22.1
Vaping	67.6%	Tobacco	12.3x	192.6
Sports Nutrition & Wellness	7.2%	Staples	15.3x	20.6
Branded HH Goods	2.6%	Staples	15.3x	9.9
EV indicated (£m)				266.1
Indicated EV/EBITDA multiple				12.0x
FY23 E Net debt (£m)				4.66
FY23 E indicated equity (£m)				261.46
Per share value indicated (p)				224.2

Source: Yahoo Finance, LSE, Equity Development estimates. Note, data for Unilever, P&G, Nestle, Walmart, Pepsico, Philip Morris and Altria is based on a GB£:US\$ conversion rate of 1.000:1.231.



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