

Domino's Pizza Enterprises

Trading update

Domino's Pizza Enterprises (DMP) provided a trading update for the first 17 weeks of FY20 at its annual meeting and Ord Minnett makes the following observations:

1. Network sales growth of 10.6% and same-store-sales (SSS) growth of 4.1% to start FY20 were in line with our forecasts;
2. SSS growth has been driven by value investments in Australasia (ANZ) and Japan, distribution, marketing and product efforts in Europe, and undemanding comparable numbers; and
3. Store network expansion continues, especially across the key growth markets of Europe.

We maintain our Lighten recommendation on Domino's and our target price of \$36.00.

- **FY20 Trading update** – Domino's released a trading update for the first 17 weeks of FY20 with its 2019 AGM presentation, with group network sales up 10.6% (14.7% pcp), SSS growth up 4.1% (slowing slightly from 4.7% in the first seven weeks; 2.9% pcp) and 42 new store openings (nine in first seven weeks; 36 in the pcp). Domino's reiterated its 3–5 year annual outlook of 3–6% SSS growth, 7–9% store growth and \$60–100m net capital expenditure.

- **Ord Minnett comment** – We make the following key observations:

1. Trading for the first 17 weeks of FY20 across network sales growth, SSS growth and store network growth was in-line with OMLf. Our earnings estimates are unchanged;
2. SSS growth to start FY20 was aided by the following: a) Investments in value across ANZ and Japan as the company deploys a sound barbell strategy, with a reduced value offering in ANZ a reason for weak FY19 performance; b) TV advertising and mega week in Germany, franchisee support and aggregator rollout in France, and menu innovation (plant-based) and loyalty program roll-out in Benelux; and c) undemanding comps (2.9% pcp);
3. Store network expansion continues especially across the key growth region, Europe, with roll-out occurring across the two large pizza markets of France and Germany and expansion into new countries Denmark and Luxembourg;
4. Disclosure has improved which is pleasing, with store network by country now available; further disclosure would be welcome, including franchisee operating earnings (EBITDA).

Recommendation

Lighten

Risk

Higher

Target price

\$36.00

Last price

\$50.80

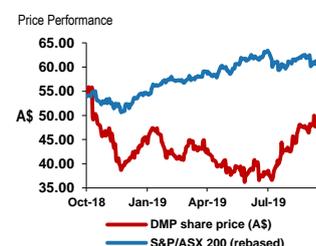


Table 1: DMP – Group network sales growth and store count

	FY18	7wks 1H19	17wks 1H19	1H19	2H19	7wks 1H20	17wks 1H20	1H20E	2H20E	FY20E	FY21E
Group network sales (\$m)	2,588.9			1,430.9	1,466.4			1,584.6	1,584.5	3,169.2	3,481.5
% growth on pcp	11.7%		14.7%	14.6%	9.4%		10.6%	10.7%	8.1%	9.4%	9.9%
% SSS growth	4.3%	4.4%	2.9%	3.3%	4.7%	4.7%	4.1%	4.3%	3.7%	4.0%	3.3%
Net new store openings	258	12	36	61	68	9	42	100	100	200	222

Source: Company reports and Ord Minnett estimates. June year end.

Private Client Research

Table 2: DMP – Store growth across divisions

Country/Segment	First 17wks FY20		1H20E		FY20E		FY21E	
	Store count	Stores opened	Store count	Net new stores	Store count	Net new stores	Store count	Net new stores
Australia	696	2						
New Zealand	130	0						
ANZ	826	2	850	25	875	50	915	40
Belgium	87	0						
Denmark	4	3						
France	404	9						
Germany	323	2						
Luxembourg	0	0						
Netherlands	288	4						
Europe	1,106	18	1,152	55	1,207	110	1,339	132
Japan	622	22	620	20	640	40	690	50
Group total	2,554	42	2,622	100	2,722	200	2,944	222

Source: Company reports and Ord Minnett estimates. June year end. Note: reported stores opened in FY20 so far (42) is inconsistent with growth from FY19 reported store count of 2,522.

Table 3: DMP – Group financials

(\$m)	2017	2018	1H19	2H19	2019	1H20E	2H20E	2020E	2021E	2022E
Network Sales	2,318.5	2,588.9	1,430.9	1,466.4	2,897.3	1,584.6	1,584.5	3,169.2	3,481.5	3,838.9
% pcp	18.3%	11.7%	14.6%	9.4%	11.9%	10.7%	8.1%	9.4%	9.9%	10.3%
Revenue	1,073.1	1,154.0	702.0	733.4	1,435.4	792.3	774.4	1,566.7	1,724.9	1,907.3
% pcp	15.4%	7.5%	23.7%	25.1%	24.4%	12.9%	5.6%	9.1%	10.1%	10.6%
EBITDA	230.9	259.2	137.2	145.2	282.4	149.2	150.7	299.9	330.1	361.5
% pcp	28.3%	12.3%	12.1%	6.1%	8.9%	8.8%	3.8%	6.2%	10.1%	9.5%
% margin	21.5%	22.5%	19.5%	19.8%	19.7%	18.8%	19.5%	19.1%	19.1%	19.0%
Underlying NPAT	118.5	133.2	68.2	73.0	141.2	75.0	74.2	149.2	163.2	179.1
Dil. EPS (¢ps)	132.1	152.4	79.6	85.4	165.0	87.6	86.7	174.4	190.8	209.4
% pcp	28.6%	15.3%	11.9%	5.0%	8.3%	10.1%	1.5%	5.7%	9.4%	9.8%

Source: Company reports and Ord Minnett estimates. June year end.

Table 4: DMP – Australia/New Zealand financials

(\$m)	2017	2018	1H19	2H19	2019	1H20E	2H20E	2020E	2021E	2022E
Network Sales	1,037.2	1,117.1	592.5	576.5	1,169.0	628.1	613.1	1,241.2	1,300.5	1,368.5
% pcp	16.6%	7.7%	6.2%	3.1%	4.6%	6.0%	6.4%	6.2%	4.8%	5.2%
% SSS growth	13.6%	4.5%	3.5%	1.3%	2.4%	4.4%	5.0%	4.7%	3.2%	3.7%
Revenue	329.5	341.1	206.0	208.3	414.3	235.5	231.2	466.7	493.4	524.1
% pcp	23.0%	3.5%	18.5%	24.6%	21.5%	14.3%	11.0%	12.6%	5.7%	6.2%
EBITDA	115.4	133.2	66.2	61.7	127.9	66.1	65.5	131.6	138.5	145.7
% pcp	25.9%	15.4%	3.2%	-10.6%	-4.0%	-0.1%	6.1%	2.9%	5.2%	5.2%
% margin	35.0%	39.0%	32.1%	29.6%	30.9%	28.1%	28.3%	28.2%	28.1%	27.8%

Source: Company reports and Ord Minnett estimates. June year end.

Table 5: DMP – Europe financials

(\$m)	2017	2018	1H19	2H19	2019	1H20E	2H20E	2020E	2021E	2022E
Network Sales	810.2	1,025.0	558.5	549.9	1,108.4	624.0	630.8	1,254.8	1,434.5	1,653.5
% pcp	30.1%	26.5%	23.7%	-4.1%	8.1%	11.7%	14.7%	13.2%	14.3%	15.3%
% SSS growth	2.8%	5.7%	2.3%	3.8%	3.1%	3.2%	3.1%	3.1%	3.1%	2.9%
Revenue	325.6	407.2	263.8	273.6	537.4	291.9	293.1	585.0	670.0	770.4
% pcp	24.8%	25.1%	39.9%	25.1%	32.0%	10.7%	7.1%	8.9%	14.5%	15.0%
EBITDA	60.0	74.9	39.4	42.5	81.9	44.6	45.2	89.7	104.2	119.8
% pcp	46.9%	25.0%	13.4%	5.8%	9.3%	13.2%	6.2%	9.5%	16.1%	15.0%
% margin	18.4%	18.4%	14.9%	15.5%	15.2%	15.3%	15.4%	15.3%	15.6%	15.6%

Source: Company reports and Ord Minnett estimates. June year end.

Table 6: DMP – Japan financials

(\$m)	2017	2018	1H19	2H19	2019	1H20E	2H20E	2020E	2021E	2022E
Network Sales	471.1	446.8	279.9	340.0	619.9	332.6	340.6	673.1	746.5	816.9
% pcp	5.2%	-5.2%	16.8%	64.1%	38.7%	18.8%	0.2%	8.6%	10.9%	9.4%
% SSS growth	-0.6%	0.9%	4.8%	12.1%	8.4%	6.5%	2.5%	4.5%	4.0%	3.6%
Revenue	418.1	405.7	232.2	251.5	483.7	264.8	250.1	515.0	561.6	612.7
% pcp	4.2%	-3.0%	13.1%	25.5%	19.2%	14.0%	-0.5%	6.5%	9.1%	9.1%
EBITDA	55.6	51.1	31.6	41.0	72.6	38.5	40.0	78.6	87.5	96.0
% pcp	17.0%	-8.1%	34.3%	48.8%	42.1%	21.9%	-2.3%	8.2%	11.3%	9.7%
% margin	13.3%	12.6%	13.6%	16.3%	15.0%	14.6%	16.0%	15.3%	15.6%	15.7%

Source: Company reports and Ord Minnett estimates. June year end.

Investment Thesis, Valuation and Risks

Investment Thesis

Retain Lighten. The core ANZ business (45% FY19 EBITDA) is mature with Dominos' share of pizza high, competition in burgers and chicken making significant pizza share gains of QSR difficult, and aggregators requiring Domino's to share the renaissance in delivered food. Franchisee profitability is expected to continue to require support moderating EBITDA margin expansion. Europe is a mixture of businesses with significant growth potential. Yet execution of store growth and market share gains in the large pizza markets of France and Germany has proved elusive, although Germany appears the most prospective with ongoing franchisee support required in France. Benelux has been strong for some time although we retain concerns of tough comps making sustained strong growth difficult, while Denmark could prove a distraction. Japan is enjoying much stronger SSS growth with menu changes and shorter order and delivery times positives, with further corporate store growth and cost savings to support EBITDA. Yet earnings growth continues to moderate, with the prospect that store growth will be driven at the expense of margins hence driving downside earnings risk and reducing valuation support (DCF \$34.22).

Valuation

Our DCF valuation is \$34.22, as detailed in the table below.

DMP – Valuation summary

\$ in millions

PV of Cash Flows	\$1,882
Terminal Value	\$1,582
Enterprise Value	\$3,463
Net Debt	\$535
Minority Interests	\$0
Valuation	\$2,928
Per Share (\$)	\$34.22

Source: Ord Minnett estimates.

Our share price target to 30 June 2020 remains \$36.00 per share. The price target is based on our DCF valuation, rolled forward at the cost of equity, less forecast dividends, as we expect the share price to trade toward a ~20x FY20E PE multiple.

Risks to Rating and Price Target

Upside risks: Promotional success, positive FX movements, acceleration in store rollout targets, faster selldown of corporate stores in Japan than anticipated, faster rollout in France and Germany than expected.

Downside catalysts: Promotional failure, especially when compared to competitors, negative FX movements, increased competitive pressure, failure to execute store rollout strategy in Europe, and failure to execute on acquisitions, including store roll-out and earnings targets.

Please contact your Ord Minnett Adviser for further information on our document.

Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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