UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

Dunelm Group plc

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Dunelm shares surge as investors cheer Christmas trading update

Homewares retailer Dunelm Group PLC (LON:DNLM) expects first-half profit to rise 16.6% despite charges related to the collapse of one of its bedding suppliers as it delivered sales growth over the Christmas trading period.

In the second quarter ended December 29, like-for-like revenue increased 9.0% to £282.5mln with store sales up 5.7% to £246.4mln and online sales up 37.9% to £36.1mln.

READ: Dunelm cautious over the short-term despite solid start to new financial year

Total group revenue edged up 2% to £303.6mln for the period.

First-half like-for-like sales grew 6.95 to £506.8mln and total revenue gained 1.25 to £551.8mln.

The company estimates first-half pre-tax profit of £70mln after a £3.8mln impairment charge associated with the Fogarty bedding manufacturer entering administration in October.

That compares to pre-tax profit before exceptional costs of £60mln the same period a year ago when Dunelm suffered £6.9mln of trading losses from Worldstores.

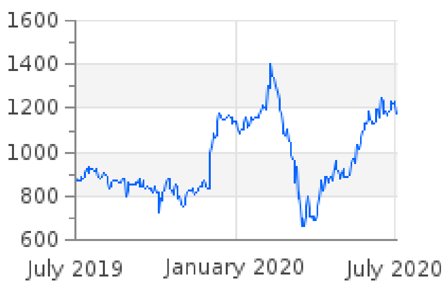
Worldstores integration

Dunelm bought WS Group, which owns the Worldstores, Kiddicare and Achica brands, in 2016 when the business was close to collapse. The group has now closed the Worldstores and Kiddicare websites and moved all business to the Dunelm brand.

Price: 1181.07

Market Cap: £2.39 billion

1 Year Share Price Graph



Share Information

Code:		DNLM
Listing:		LSE
52 week	**High**	**Low**
	1450	**596.5**
Sector:		**Retail**
Website:		**www.dunelm-mill.com**

Company Synopsis:

Dunelm Group plc is a specialist out-of-town homewares retailer providing a range of products to a customer base, under the brand name Dunelm Mill.

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The retailer said its gross margin improved following the elimination of lower margin sales from the Worldstores businesses.

It estimates the total gross margin increased by 190 basis points (bps) in the second quarter compared to a year ago. At the Dunelm brand, the gross margin rose 120bps as the impact of the integration of Worldstores' lines was offset by foreign exchange tailwinds and improved sourcing.

"By focusing back on our core business, under one Dunelm brand, we are improving our trading and financial performance," said chief executive Nick Wilkinson.

"The positive like-for-like revenue growth both in stores and online highlights the strength of our customer offer.

"Our multichannel proposition is improving all the time, and we are looking forward to introducing our new web platform in the summer, using more flexible technology which will allow us to better serve our customers in a changing retail landscape."

Dunelm cautious about outlook for rest of the year

Dunelm said it remains cautious about the outlook given the "unprecedented levels of uncertainty" facing consumers and businesses in the UK but expects full-year pre-tax profit to be modestly ahead of the top range of market forecasts if the homewares market continues to grow at a similar rate to that experienced in the first half.

The current range of analysts' expectations for pre-tax profit in fiscal year 2019 is £108mln to £112mln.

Net debt stood at £78mln on December 29, down from £134mln last year.

"Despite our strong performance in the year to date, we remain cautious on the outlook for the second half given the ongoing uncertainty in the UK economy," said Wilkinson"

"However, in the medium term, we see significant opportunity to grow the business by focusing on our customers and seizing opportunities in a digital world."

Shares jumped 10% to 642.5p in morning trading.

Broker raises target price after 'strong' second-quarter trading

UBS maintained a 'buy' rating on the stock and raised its target price to 650p from 600p.

The investment bank also lifted its forecast for full-year like-for-like revenue growth to 7.5% from 7.5%. It now estimates a gross margin of 150 basis points, compared to 100 basis points previously, and raised its forecast for pre-tax profit to £116mln from £108mln.

"Dunelm has seen strong trading in Q2 as new management focus on the core business," UBS said.

"Worldstores is no longer a major distraction as the acquired websites have been closed and the online capabilities rolled into dunelm.com."

RBC Capital Markets said it thinks the outlook for the UK homewares market has improved but consumer uncertainty remains.

"While there are opportunities going forward, we think Dunelm's medium term's £2bn sales and market share target look ambitious," it said.

"Dunelm is trading at c.12.4x 2019 calendar year price/earnings and offers a circa 5% dividend yield."

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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