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AO World surges as it reaffirms full year guidance after Black Friday boosts November sales to highest ever

AO World PLC (LON:AO.) shares surged in early trading Friday after it reaffirmed its guidance for the full year while Black Friday boosted sales to record-breaking levels in November.

In a trading update for the third quarter ended 31 December, the electricals and white goods retailer reported group revenues had risen 8.2%, with UK and Europe revenues rising by 4.4% and 31.3% respectively.

READ: AO World shareholders approve takeover of Mobile Phones Direct
The group said customers had responded, "positively" to its Black Friday deals, which it offered over a longer period in November, leading to what it said was "smoother" sales flow and improved margins. The boost also meant November was the firm's highest sales month ever.

For Europe, AO said the 31.3% growth was stronger than the second quarter due to a return to underlying growth levels following the impact of changes made to its driver operating model in the first half of the year.

Figures for Mobile Phones Direct, which the company acquired in a £38.1m deal in December, were not included in the update.

As a result of the growth figures, AO said it remained "on track to deliver its long-term strategic plan" and that its expectations for the full year were unchanged.

Steve Caunce, AO's chief executive, said the third quarter had represented "a solid performance" against a "challenging backdrop", adding that the firm had seen "record numbers of customers choose AO for their Black Friday and seasonal electricals purchases".

READ: AO World sinks as it reports first-half loss amid "tougher than expected" UK appliance sales

The numbers will likely bring cheer to AO's investors after gloomy first half results in November when the firm reported a loss of £5.4m despite a 9.9% increase in revenues to £404.2m amid a slowdown in its core major domestic appliances markets in the UK and Germany.

Broker reiterates Sell, says firm still "subscale"

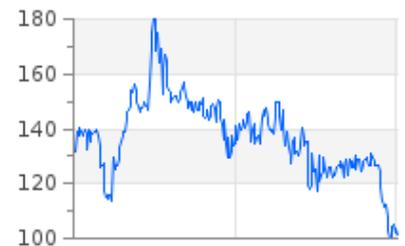
In a note to clients, analysts at City broker Shore Capital reiterated their 'Sell' rating on the stock, saying that the company "remains subscale, particularly in Europe and will only be EBITDA breakeven towards the end of FY2021".

The broker added that AO was also "facing into a more competitive market given Dixons Carphone's strategic review and an altogether uncertain consumer outlook given the 'Brexit fog' that clouds at least the next three months".

Price: 103.6p

Market Cap: £488.87M

1 Year Share Price Graph



February 2018 August 2018 February 2019

Share Information

Code: AO.

Listing: LSE

52 week	High	Low
	180.20p	96.80p

Sector: General Retailers

Website: ao.com

Company Synopsis:

Re-defining retailing through a devotion to happiness and amazing customer service. AO isn't a normal company. We like to push boundaries and do things differently. We're on a mission to become a leading European online retailer of electrical products. We also want to change the world of retail and be at the forefront of online retail innovation.

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"The company trades on FY2021 [price-earnings] ratio of 39x and [enterprise value/EBITDA multiple] of 37x. To us, this still looks too rich given its track record, present performance and short-to-medium term prospects despite the shares having fallen 17% over the last three months. As such, one place we do agree with AO's management is that it remains a long-term investment proposition."

"Wise move" to extend Black Friday period, says analyst

Zoe Mills, retail analyst at GlobalData, said that AO's decision to extend its Black Friday to a two-week period was "a wise move allowing it to spread demand for its logistic teams and better manage the influx of sales".

"With its competitors, Dixons Carphone and Argos having already adopted this strategy, it ensured AO World remained competitive over the period" Mills said, adding that the company "must continue to improve margins as it enters Q4 2018/19, especially given the prolific discounting expected in January sales and we expect this quarter to be equally challenging in terms of profitability".

The analyst added that while the figures were not included in the update, she expected the Mobile Phones Direct acquisition to be "fruitful in 2019".

Shares were up 3.4% at 128.4p.

--Adds analyst comment and updates share price--

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