

1 **B&M – Warwick Okines, BUY, close 413p, 450p tgt, 9% upside**

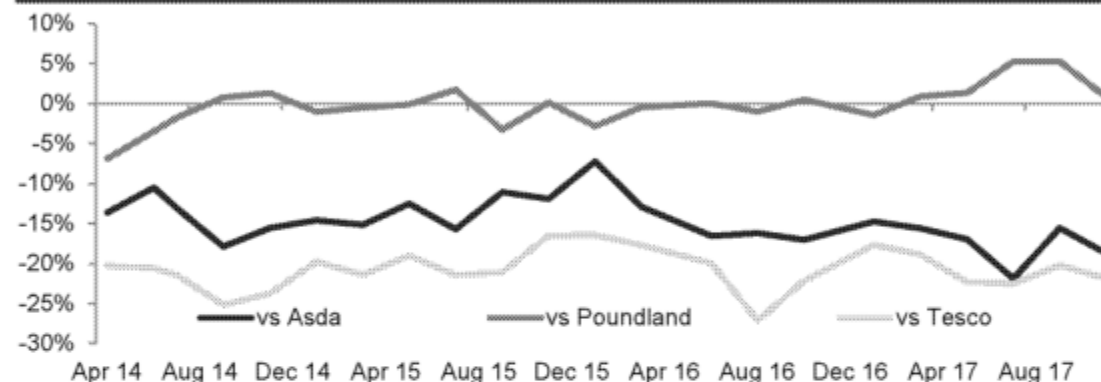
- **Our preference is for value retailers.** The UK macro environment looks similar to the austerity years of 2011/12. Both in groceries and in our apparel consumer survey we can see evidence of a shift to value.
- **B&M is a price leader**, with a robust 15-20% price gap to Tesco and Asda.
- **Value retailers also offer structural growth opportunities.** Multi-price discounters grew at a sales CAGR of 12% in 2006-16, illustrating their ability to progressively gain market share.
- B&M has **ambitious store expansion** plans with a UK target of 950 overall vs. existing 552 as of Sep-17, implying 40-50 openings p.a. over nine years.
- **We see attractive long-term growth opportunities:**
 - **Ja Woll** – a German discount retailer: we forecast a sales CAGR of 13% to 2020E.
 - **Heron Foods** (a discounted convenience grocery retailer, purchased in Aug-17), from expanding its existing base of 257 stores. It would also make selling a greater range of non-ambient food products at B&M economically attractive.
- **A strong balance sheet** provides return optionality. At only 1.6x leverage in Mar-18 we see potential for a 15p special dividend which would imply a 5.5% dividend yield.
- B&M trades on a CY18E P/E of 19.6x. This is only a **1.3x PEG**. The valuation does not reflect B&M's growth trajectory.
- Catalysts: Q3 results on 12-Jan.

Related DB Research:

[B&M: Heron is flying \(Okines\)](#)

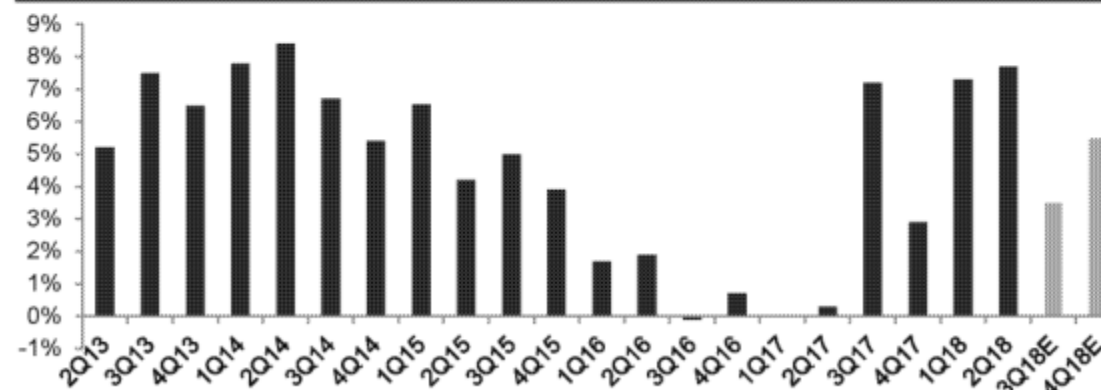
[European Non-Food Retail: Christmas turkeys and crackers \(Okines\)](#)

The price gap vs. Tesco and Asda is widening – B&M is a price leader



Source: Deutsche Bank (last data point: 10 November 17), company websites

Q2 LFL better than Q1, despite Easter effect in Q1



Source: Deutsche Bank estimates, company data