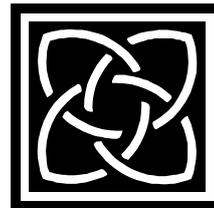


# FFO SECURITIES (PTY) LTD

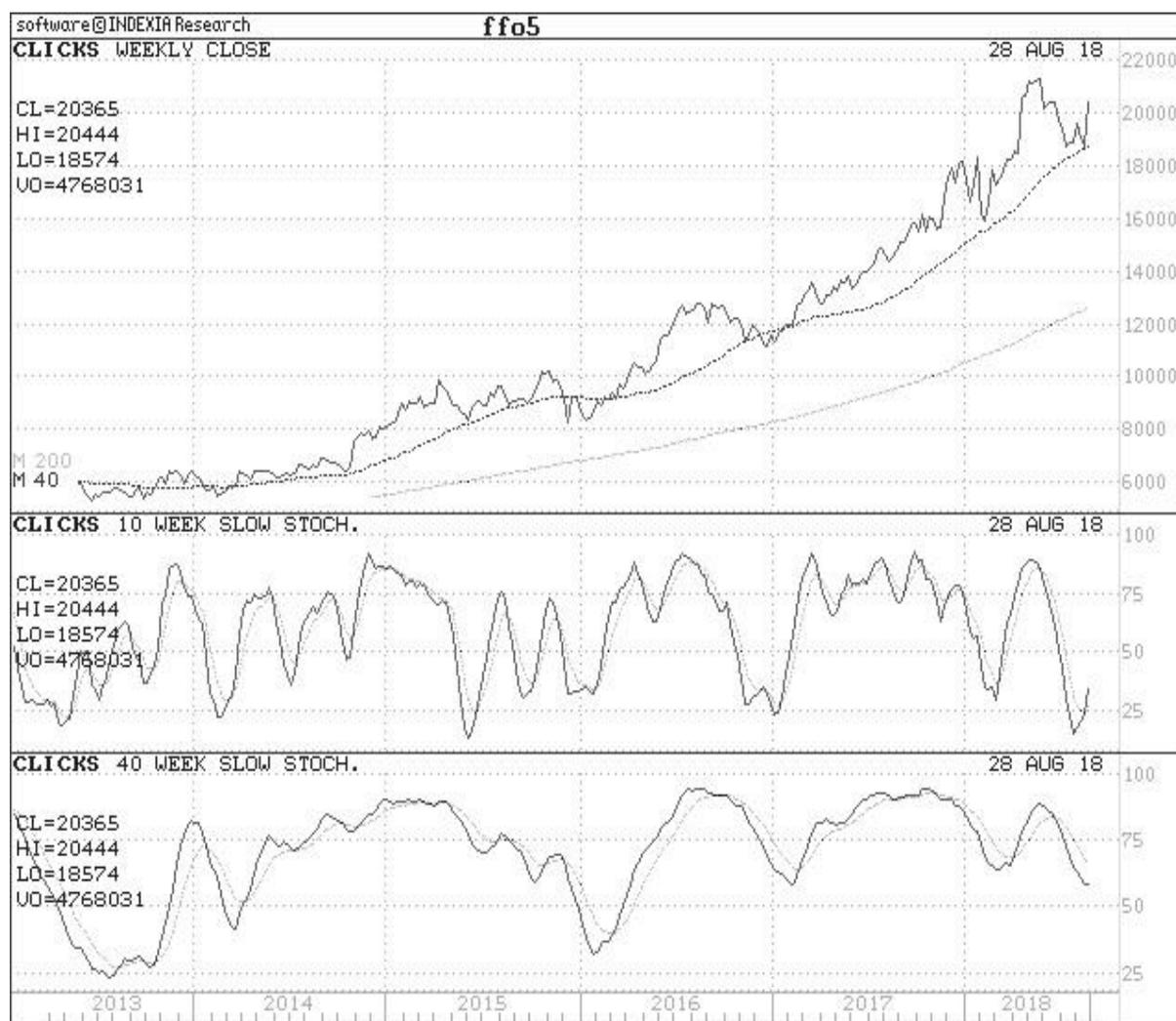
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TRADE IDEA FOR TODAY

29 August 2018

Clicks Group (CLS) Clicks Group is a retail led healthcare group listed in the Food and Drug Retailers sector on the JSE. The Clicks brand is well known with more than six hundred convenient and drug stores nationwide, and has recently celebrated its 50<sup>th</sup> anniversary. The Group includes Clicks Stores, Musica, The Body Shop, GNC Stores, and United Pharmaceutical Distributors (UPD).



## INVESTMENT CASE

Despite a subdued South African economy, and continued constrained consumer spending, Clicks continue to perform well in the Health & Beauty divisions, where turnover grew 14% in the six months to end February 2018. Group turnover was up 10%. Operating margins also improved slightly from 6.4% to 6.5%.

The Digital Platform is also performing well, where online sales have doubled since the previous reporting period. Clicks now has more than 7 million Club card members. We expect this growth momentum to continue.

The group forecast earnings growth for the full 2018 financial year to be between 12% and 17%, and will report in October 2018.

The Company delivered consistent growth in earnings over the last five years, with 12.9% compound growth. In turn, the share price gained more than 280% over the same period, reflecting investors positive sentiment.

The company is currently trading on a Price to Earnings Ratio of 36 compared to its competitor, Dis-Chem Pharmacies, which is trading on a 42 Price to Earnings Ratio, which offers a cheaper entry into this sector. The operating margin of Clicks Group is also higher at 6.5% compared to Dis-Chem's operating margin of 5.8%.

Clicks Group offers attractive organic growth prospects for investors seeking non-cyclical exposure to the South African retail and healthcare sectors, with a resilient business model and expanding pharmacy base. Over 80% of group turnover is in defensive merchandise categories. Clicks is a cash retailer and is less sensitive to interest rate movements than credit retailers.

Technically, the share price came down to test its 40-day moving average, and turned up again. The momentum indicators have also turned up signalling further upside potential.

**Our fair value and long-term price target is R 250.00, representing decent upward potential from the current level.**

## TARGET OUTCOME

**Current Price: R 205.80**

**Target Price: R 250.00**

**Potential Return: 21.47%**

### Disclaimer:

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