

Morning Wrap

Today's Newsflow

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DCC Best Buy Positive Read across for Technology Division
UK Economic view Prices down in August, but have remained relatively resilient

Equity Research

30 Aug 2024

08:26

Upcoming Events

Company Events

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|--------|---|
| 2-Sep | Kainos Group; Q125 Trading Update |
| 3-Sep | DS Smith; Q125 Trading Update Uniphar; Q224 Results |
| 04-Sep | Bakkavor Group; Q224 Results Barratt Developments; FY24 Results Cairn Homes; Q224 Results Dalata Hotel Group; Q224 Results Datalex; Q224 Results Frontier Developments; FY24 Results |
| 05-Sep | Darktrace; FY24 Results Glenveagh Properties; Q224 Results Vistry Group; Q224 Results |

Economic Events

Retail Sales Jul

Ireland

United Kingdom

30-Aug BoE Mortgage Approvals
M4 Money Supply

United States

Europe

Goodbody Capital Markets

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DCC Best Buy Positive Read across for Technology Division

DCC's Technology division (24% of FY24 YE March sales, 13% of FY24 OP) has been the part of DCC's business under pressure in recent periods, under pressure from consumer and commercial spending.

In this context, US peer Best Buy (BBY), addressing the US consumer technology market, yesterday saw a 14% stock price bounce, after 2Q24 numbers beating and a statement talking about a "confluence of replacement, upgrade, and innovation in the coming years", also calling out some AI-based product innovation coming to market. This is a positive read through for DCC as we see FY25 (March YE) as a year of stabilisation (sales +2% after -9% organic in FY24) and our estimates don't currently assume any acceleration in sales growth or improvement in operating margins in FY26 – BBUY would suggest this is cautious, especially beyond the still uncertain 2024 holiday sales season.

DCC is trading just below 11x FY25E EPS v's 14-16x historic, while delivering cash and earnings consistent with its past record. Despite a period of heavy investment (two healthcare plants) and associated cost annualization effects still to work through, ROCE has remained strong at over 14% and is set to trend up.

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UK Economic view Prices down in August, but have remained relatively resilient

House prices in the UK fell by 0.2% mom in August (+0.2% expected) according to Nationwide. It still meant that annual growth rose to 2.4% (from 2.1% in July), due to weak base effects. This is the highest annual rate of growth since late 2022.

There are opposing drivers of house prices in the UK at the current time. On the positive side, nominal earnings growth continues to grow at a decent clip in a labour market that remains tight. Mortgage rates are high relative to the recent past but have started to come down as the Bank of England has started to reduce Bank Rate. However, affordability remains stretched. Nationwide's measure of affordability (house price/income) stands at c.6x currently, having peaked at c.7x in 2023. This is still well ahead of the long-run average is 4.5x but closing in on the average since 2000 of c.5.5x. In the absence of a demand shock, it is difficult to see nominal price declines improving this picture. More likely is a continuation of the recent trend whereby income growth exceeds house price growth leading to a further improvement in the ratio.

The UK housing market has been relatively resilient through the period of interest rate rises by the Bank of England. Following the close call rate cut this month, the market is pricing in another rate cut in November, with one full percentage point cut priced in the next twelve months. In this environment, we would expect some pick up in mortgage demand and for prices to remain relatively resilient.

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Recommendation: Buy
Closing Price: £53.50

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