WH Smith's full year profits rise as travel store sales growth mitigates high street decline

WH Smith Plc (LON:SMWH) reported flat full year like-for-like sales as growth in its travel business offset another decline at the retailer's struggling high street stores.

Shares in the stationary and books supplier fell 2.2% to 2,025p in early trading before recovering slightly to 2,062p.

In the year to 31 August 2017, total revenue rose 2% to £1.23bn from £1.21bn last year but was flat on a like-for-like basis. Group pre-tax profit grew 7% to £140mln compared to £131mln last year.

High street store sales fall, travel business booms
Trading profit at high street stores was flat at £62mln while total revenue fell 5% and like-for-like sales dropped 4%. To mitigate the decline in sales, the company delivered £12mln in cost savings.

WH Smith said it is targeting a further £9mln of cost savings for the next financial year.

"WH Smith's traditional town centre business has been struggling for years, as online competition heats up and high street footfall sinks," said Nicolas Hyett, equity analyst at Hargreaves Lansdown.

"In response the company focused on building up the travel business in stations and airports, while managing the decline of the high street estate. The transition has been managed deftly, with the High Street sustaining profits despite falling sales, and the group is now not only present in practically every major UK travel hub, but operating in airports around the world."

The travel division, which operates 815 stores at airports and train stations, propped up the group’s results with a 9% increase in total revenue and a 4% rise in like-for-like sales.

Chief executive Stephen Clarke said for the the first time revenue in travel has overtaken high street and travel is now the largest part of the group in both revenue and profit.

Hyett said the results marked a "important milestone" for WH Smith as travel becomes a major contributor to group performance and expects the trend to continue.

"Overall we like WH Smith's direction of travel. Falling sales on the high street will inevitably hit profits eventually, but continued success in Travel should mean that's a smaller headwind going forwards."

WH Smith lifts dividend, announces share buyback
The group proposed a final dividend of 33.6p, up 10% on the prior year, bringing the total dividend to 48.2p compared
to 43.9p in 2016.

The company also announced it would return up to £50mln in cash to shareholders through a rolling on-market share buyback programme. It follows the completion of a £41mln share buyback announced in October 2016.

Clarke said the further share buyback and increased dividend reflects strong cash generation and the company’s confidence in its future prospects.

Free cash flow came to £105mln, down from £108mln last year, as the company invested in its store opening programme.

"Looking ahead, we will focus on profitable growth, cash generation and new opportunities to profitably invest in the future," said Clarke.

"While the economic environment remains uncertain, we are well positioned for the current year and beyond."

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