

Hibbett Sports

Ticker: HIBB

Current Price: \$53.22

Recommendation: Sell

Target Price: \$47.20

Sector: Retail

Analyst: Fred Rockwell

Date: April 26, 2014

Recommendation Summary

Hibbett Sports (HIBB) is facing increased competition from big box stores and ecommerce while its margins compress due to expansion expenses. DKS and Academy are moving into HIBB markets and the company remains the only major sports retailer without an online presence. HIBB trades at a premium to peers based on future growth and share buybacks neither of which are a certainty.

Company Overview

HIBB operates sports stores in the Mid-Atlantic, South, Southwest, and Midwest. It has 927 stores generally located in strip malls and near a Wal-Mart store. The stores are 5,000 square feet, a quarter of the size of a Dicks Sporting Goods store and smaller than most competitors. HIBB aspires to have a greater national presence and it is building out the infrastructure to do it.

Investment Thesis

The recent earnings miss will continue I predict 2014 EPS 5% below guidance based on slower top-line growth and compressed margins. DKS and Academy who operate nearby geographically are ramping up growth after the credit crisis and in several cases are moving into HIBB territories. A new DKS store in a HIBB market hits volumes by 15-20% in year one. There is bound to be more overlap and at a minimum competitor expansion will inhibit company growth.

HIBB is the only retailer of its competitors without an online presence. It plans on rolling out an ecommerce channel in 2015 but it will suffer a late mover penalty. Who would go to the HIBB website to purchase a product when consumers already know about competitor sites and have the option of going right to vendors like Nike and Under Armor? The online sports market had a CAGR of 19% between 2009 and 2012. DKS grew its online sales by 65% in 2013 to \$480M, and these sales often add to in-store sales. HIBB is missing it.

Margins will continue to be depressed by the \$40M cost of moving warehouses, price markdowns and increased spending on IT, healthcare, and marketing. The company will be paying for an extra warehouse through 2014. Then there is the cost of playing catch up in e-commerce. Margins are further constrained because HIBB has no buyer power with suppliers, 52.3% of sales are Nike products.

Other headwinds include less share buybacks and rising interest rates. The company completed only 63% of its past buyback programs, and in two thirds of periods with rising rates the retail sector underperformed the greater market. Based on stalled EPS and an EV/EBITDA multiple falling in-line with the industry I target a \$47.20 price.

Key Statistics

| | |
|---------------|---------|
| Market Cap. | 1.37B |
| Total Debt | 3.1M |
| 52-Week | \$50.67 |
| Range | \$68.31 |
| 3mo Avg. Vol. | 355K |
| Beta | 1.34 |
| P/E ttm | 19.7x |
| 2013 EPS | \$2.70 |
| Current Year | |
| EPS Consensus | \$2.90 |
| Sales Growth | |
| Consensus | 9% |
| Last Reported | |
| Quarter | 2013 Q4 |
| Consensus | .70 |
| Actual | .64 |

| Ticker | Price | Market Cap | Profit Margin | P/E ttm | EV/EBITDA ttm |
|---------|----------|------------|---------------|---------|---------------|
| DKS | \$ 52.71 | 6.53bn | 5.4% | 19.6 | 9.1 |
| FINL | \$ 26.49 | 1.29bn | 4.6% | 16.5 | 6.6 |
| FL | \$ 45.84 | 6.68bn | 6.6% | 16.1 | 7.3 |
| Average | | | 5.5% | 17.4 | 7.7 |
| HIBB | \$ 53.22 | 1.37bn | 8.3% | 19.7 | 10.3 |