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ADVISORY

Consumer Rebound

Our weekly view on Australian equities.

24 September 2025

Macro Tailwinds Meet Valuation Headwinds

Consumer confidence has climbed to three-year highs, as easing cost-of-living pressures from lower inflation, interest rate relief and stronger disposable income growth have provided support to Australian households.

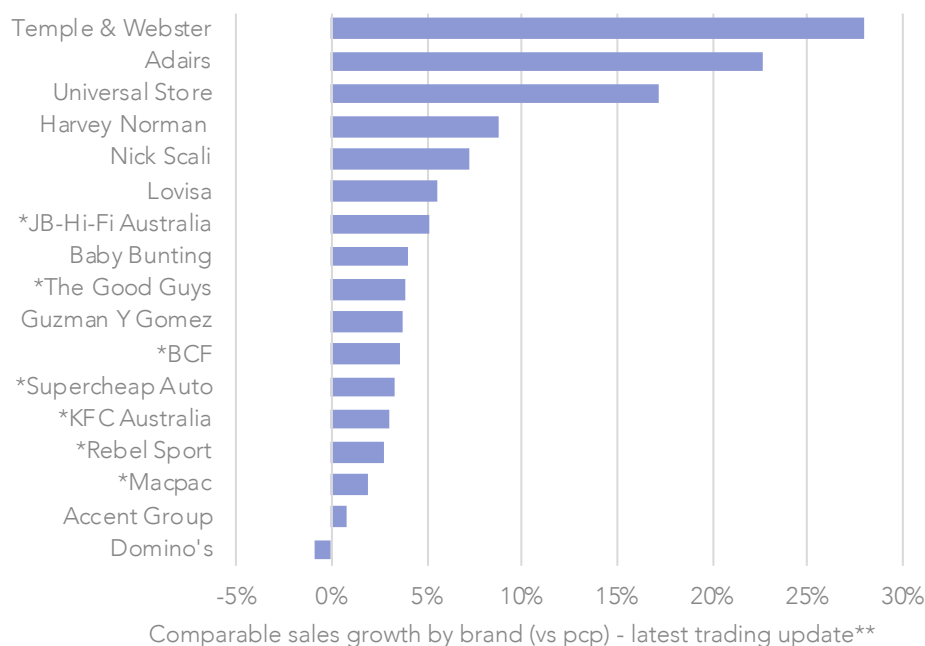
This provides a favourable backdrop for consumer discretionary businesses such as retailers, fast food chains, travel operators and consumer goods companies after years of headwinds. As a result, a top line recovery, easing input costs and operating leverage are set to underpin an upwards inflection in earnings across the sector.

Despite these positive dynamics, current valuations are a challenge. Consumer Discretionary companies, particularly in Retail, have significantly re-rated and are trading at the highest point of at least the past two decades. Despite the sector-wide re-rate, we have identified a few key opportunities that balance out strong EPS growth while still offering a fair entry point.

Figure 1: Consumer confidence has risen to three year highs



Figure 2: Recent trading updates show positive momentum in consumer spending in early FY26



Discretionary Earnings Momentum is Inflecting Upwards

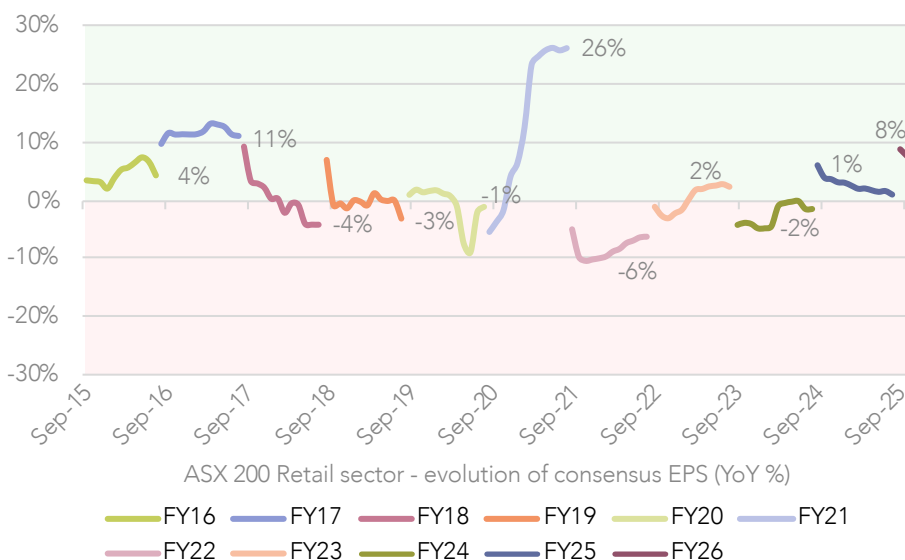
We saw a clear improvement in consumer spending throughout the August 2025 reporting season, with the latest trading updates from across the Consumer Discretionary sector showing accelerating sales momentum. In these early FY26 trading updates, median comparable same store sales growth sits at ~4%.

Encouragingly, momentum has been broad-based, spanning everything from Apparel & Accessories (Universal Store, Lovisa), Electronics (JB Hi-Fi), big-ticket items like Furniture & House Goods (Temple & Webster, Harvey Norman, Adairs, Nick Scali) and Autos & Accessories (Eagers, Autosports Group). Card spending data released by CommBank also shows a marked increase in discretionary spending across all age cohorts under the age of 65 between April and June 2025 (compared to the pcp), which indicates interest rate cuts are translating to stronger consumption among mortgage holders.

The combination of the start of top line recovery and natural operating leverage associated with the fixed cost based of retailers (particularly brick & mortar stores) have resulted in a positive forward earnings outlook for the sector. After a few years of negative to low single digit EPS growth, the sector is now at an inflection point from an earnings point of view. Consensus is now expecting FY25-28 EPS CAGR of high single digits in Retail and low double digits in Consumer Discretionary.

*The Good Guys is part of JB-Hi-Fi Group (JBH), Supercheap Auto, BCF, Rebel Sport and Macpac are a part of Super Retail Group (SUL), Dan Murphy's is a part of Endeavour Group (EDV), KFC is part of Collins Foods (CKF). **Trading update periods vary by company. Source: Company filings, Wilsons Advisory.

Figure 3: After delivering negative to low single digit EPS growth in the last four years, earnings growth is expected to inflect higher from FY26



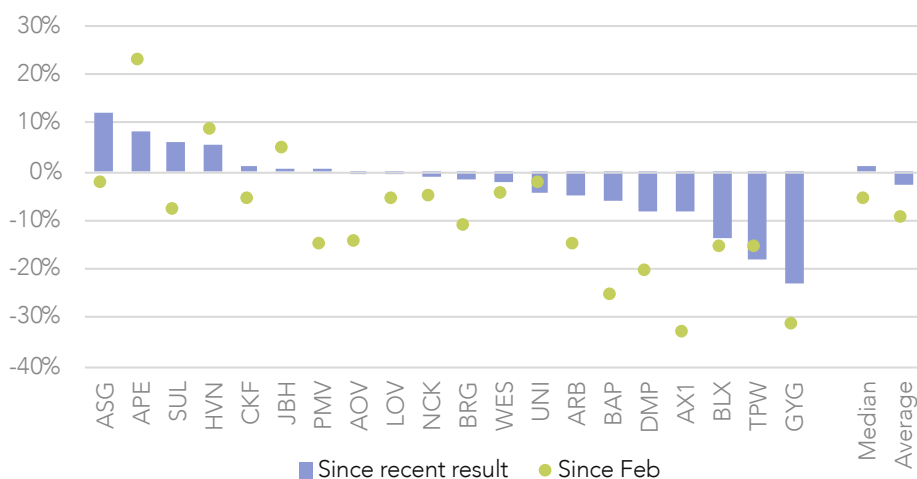
Source: Refinitiv, Wilsons Advisory.

Figure 4: Sector P/Es have significantly re-rated and trades at large premiums to their historical averages



Source: Refinitiv, Wilsons Advisory.

Figure 5: Looking underneath the hood, EPS revisions remain mixed but have trended less negatively since recent earnings results



Source: Visible Alpha, Wilsons Advisory.

Valuations Appear Stretched at the Sector Level

While the Consumer Discretionary sector's earnings outlook has started to materially improve, this needs to be balanced against generally demanding valuations, particularly within the Retail sector.

Valuation multiples within the sector have re-rated significantly over the last 12-18 months, well ahead of any improvements in the macro environment and despite relatively broad-based consensus earnings downgrades in this timeframe. This implies the market has been willing to look through near-term macro headwinds and earnings downgrades and has ultimately priced in a consumer recovery for some time now, leaving little value at the sector level.

Most notably, index heavyweight Wesfarmers has re-rated to a forward P/E of ~37x, which is comfortably a new all-time high for the business, well above prior cycle highs and its long-run trading range of ~15-20x. The company also trades on a substantial premium to best-in-class offshore retail comps like Home Depot (~27x) and Lowes (~21x). Similarly, JB Hi-Fi's forward P/E multiple has risen to ~25x, which is a post-GFC high and comfortably above its long-run trading range of ~10-15x.

While both businesses are among Australia's highest quality retail businesses – as 'category killers' in their respective segments with strong competitive advantages supporting continued market leadership – elevated earnings multiples create a balanced risk/reward trade-off at this juncture. Accordingly, notwithstanding their quality and the supportive macro dynamics, the Focus Portfolio has zero exposure to both these names due to valuation concerns.

Screening the Consumer Discretionary Sector

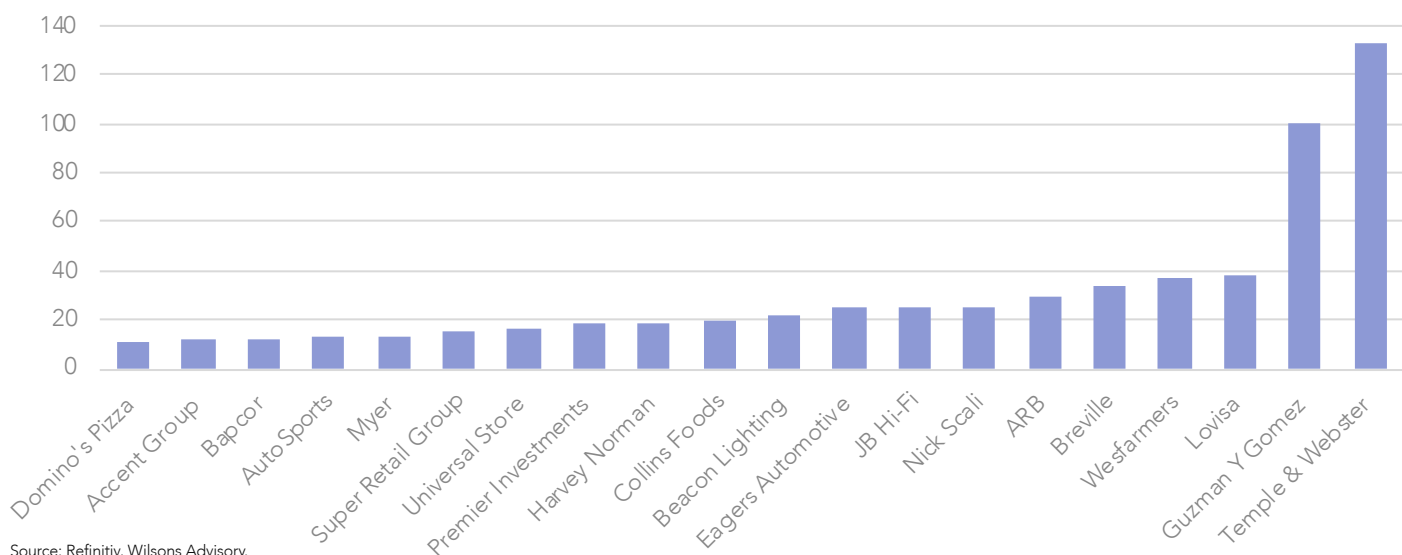
Despite a strong sector re-rating, there are still opportunities available that provide leverage to the consumer rebound, while also offering reasonable entry valuations. These include Collins Foods (Focus Portfolio 3%), Autosports Group and Universal Store.

Figure 6: Despite broad-based re-rates, there are still attractive valuations given strong earnings growth outlooks

Name	Ticker	Market cap (\$m)	Current fwd P/E	5Y avg	+/- vs sector	+/- 5yr avg	FY25-28 EPS CAGR	PEG ratio	12M fwd EPS revisions - last 90 days
Universal Store	UNI	677	16.5	13.64	-43%	21%	28%	0.6	-4%
Autosports Group	ASG	668	12.5	8.36	-57%	50%	22%	0.6	14%
Myer	MYR	1,045	13.0	11.53	-55%	13%	19%	0.7	-4%
Collins Foods	CKF	1,263	19.4	18.92	-33%	3%	18%	1.1	-1%
Accent Group	AX1	824	12.3	14.47	-57%	-15%	11%	1.1	-14%
Nick Scali	NCK	2,068	25.0	14.25	-13%	76%	21%	1.2	-3%
Domino's Pizza	DMP	1,275	10.6	30.29	-63%	-65%	9%	1.2	-17%
Beacon Lighting	BLX	732	21.3	16.76	-26%	27%	15%	1.5	-8%
Harvey Norman	HVN	9,096	18.4	12.80	-36%	44%	12%	1.5	6%
Guzman Y Gomez	GYG	2,551	100.6	160.99	249%	-38%	59%	1.7	-24%
Bapcor	BAP	1,090	12.5	16.58	-57%	-25%	8%	1.6	-24%
Temple & Webster	TPW	2,826	132.5	96.89	360%	37%	67%	2.0	-18%
Lovisa	LOV	4,297	37.8	31.20	31%	21%	21%	1.8	-2%
Eagers Automotive	APE	7,221	24.7	14.77	-14%	67%	12%	2.1	3%
Premier Investments	PMV	3,357	18.0	18.36	-38%	-2%	9%	2.0	-1%
Super Retail Group	SUL	3,783	15.5	13.31	-46%	16%	7%	2.2	6%
ARB	ARB	3,244	29.5	27.87	2%	6%	12%	2.5	-6%
Breville	BRG	4,684	33.3	30.77	16%	8%	10%	3.4	-4%
JB Hi-Fi	JBH	12,906	24.8	15.87	-14%	56%	8%	3.3	2%
Wesfarmers	WES	105,300	36.5	26.05	27%	40%	8%	4.5	-4%

Source: Refinitiv, Wilsons Advisory.

Figure 7: There is a wide dispersion of P/Es within the sector



Source: Refinitiv, Wilsons Advisory.

Collins Foods (CKF) – Original Recipe for Success

CKF is held in the Focus Portfolio at a weight of 3%.

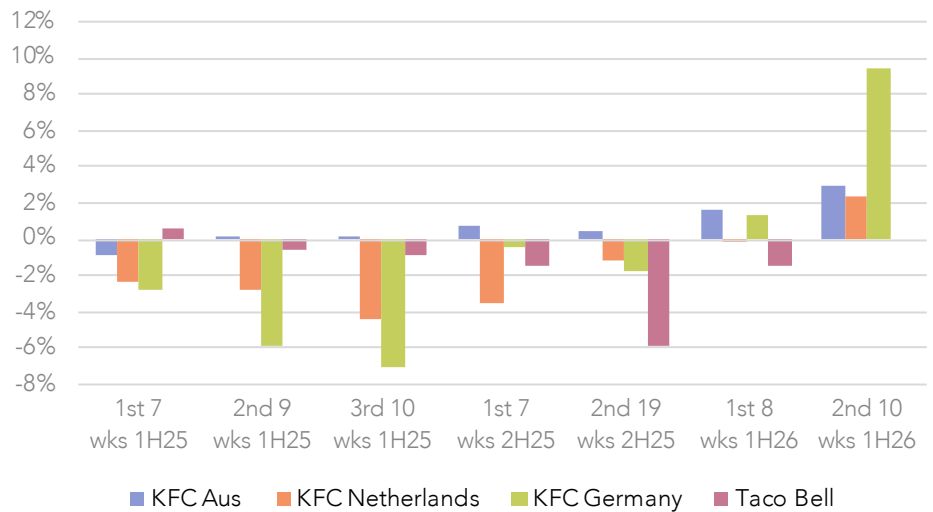
CKF is the largest franchisee of KFC restaurants in Australia with 285 outlets, while also operating a further 74 stores across the Netherlands and Germany. We are attracted to the strength of the KFC brand (particularly in Australia), the company's strong cash conversion, and significant long-term growth opportunities through store rollout – particularly in Europe.

Earnings are at an inflection point

In addition, CKF's earnings are at an inflection point, with its earnings leveraged to a cyclical recovery in domestic consumer spending over the near-term. The business is already starting to benefit from a stronger consumer backdrop following successive rate cuts, positioning it for a recovery in top line growth and margins that will underpin strong earnings growth.

CKF's most recent trading update demonstrated strength in KFC Australia's same store sales growth (SSSg), which accelerated to +3% in the 10 weeks up to 31 August.

Figure 8: Same store growth momentum troughed in the latter part of 1H25 and has turned increasingly positive in 1H26



SSSg figures are calculated from trading updates, half yearly and annual results. Source: Company filings, Wilsons Advisory.

This strength in SSSg, together with continued operational excellence, underpins margin improvement. We expect this will continue as the business sees further cost deflation, operating leverage and eventually, menu price increases.

Valuation remains attractive

Despite its recent rally, CKF still offers compelling value at a forward PE of ~19x, alongside a 3 year EPS CAGR of ~20%, implying an attractive PEG ratio of ~1.1x.

Autosports Group (ASG) – Earnings Are Shifting to a Higher Gear

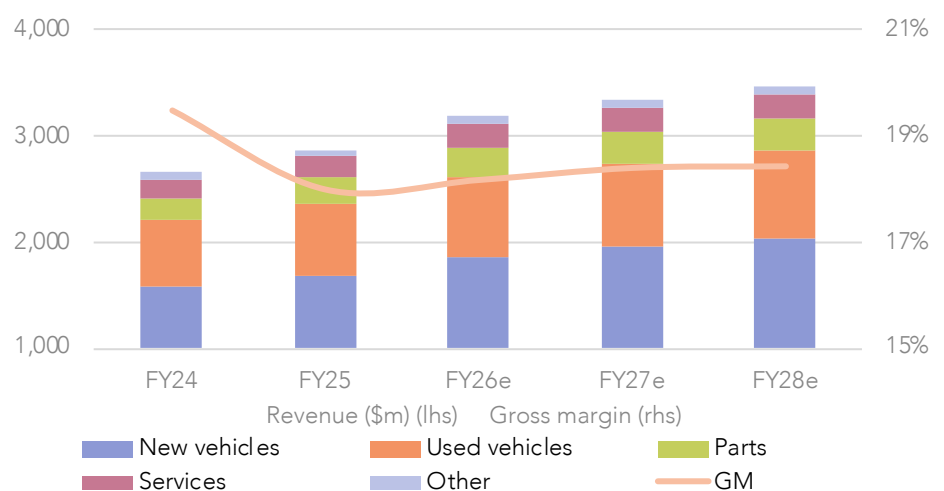
ASG is represented in Invest Now as one of our highest conviction small and mid cap investment ideas from the Wilsons Advisory Research team's coverage.

ASG is an Australian automotive dealer that focuses on luxury new vehicle sales, while also selling used vehicles, aftermarket parts and providing services (i.e. repair, distributing finance/insurance products). ASG is well-positioned for growth as industry headwinds start to unwind, it has the balance sheet capacity to fuel growth and still screens attractively valuation-wise.

We are attracted to ASG at this juncture for three key reasons:

- Improving industry dynamics** – the recent FY25 result confirmed that new vehicle order writes and gross margin improved through 2H25. This was evidence that industry conditions have turned, after a period of normalisation

Figure 9: Margins are expected to have troughed in FY25, and the new vehicle market has started to improve



Source: Visible Alpha, Wilsons Advisory.

following elevated gross margins due to post-Covid supply chain disruptions. Encouragingly, July trading has started on a strong note, with revenue up ~13.5% vs the pcg, and new vehicle order writes are up 20.2% vs the pcg.

This further reinforces our positive outlook as the RBA eases monetary policy. Furthermore, the Federal Government is considering scrapping the luxury car tax, which would further support demand.

2. Industry consolidation tailwinds

– the prospect of further industry consolidation as OEMs rationalise their networks is a positive for ASG. This is because ASG has greater operational scale relative to other dealers and the balance sheet capacity (including a recently announced \$350m debt facility) to fund EPS accretive dealership acquisitions.

3. **Attractive valuation** – while stock has re-rated, ASG's valuation still remains attractive at a forward P/E of 13.5x, which is at a discount to other interest-sensitive consumer names shown in Figure 6. Furthermore, its current discount of 48% to leading auto dealer peer Eagers (APE) (26x) is below its average of 41%, demonstrating that ASG still offers good value, particularly considering a 3 year consensus EPS CAGR of ~22%, implying a PEG ratio of just 0.6x.

Universal Store – A Thrilling Set-up

Universal Store (UNI) is a specialty retailer of casual and youth (15–35) apparel with a fast-growing brand portfolio: Universal Store (US), Perfect Stranger (PS) and Cheap Thrills Clothing (CTC). We suggest UNI for the following reasons:

Private brand penetration is driving margins

UNI is expanding private label penetration across its portfolio, delivering higher gross margins. This is predominantly due to:

- **Direct sourcing** – UNI cuts out third parties and buys directly from manufacturers, lowering per-unit costs. This has expanded from 18% of private label goods in FY20 to 76% recently.

- **Pricing power and exclusivity** – Its sought-after private brands are exclusive to UNI stores, giving them pricing power.

Its most successful private label, Perfect Stranger, now has standalone stores, which are group margin drivers as they overwhelmingly sell private brands. Due to the success of in-house brands such as Perfect Stranger and Neovision, UNI's private label penetration has increased from 30% to 55% in the past five years, with further scope to increase.

Operational excellence catered to a resilient customer base

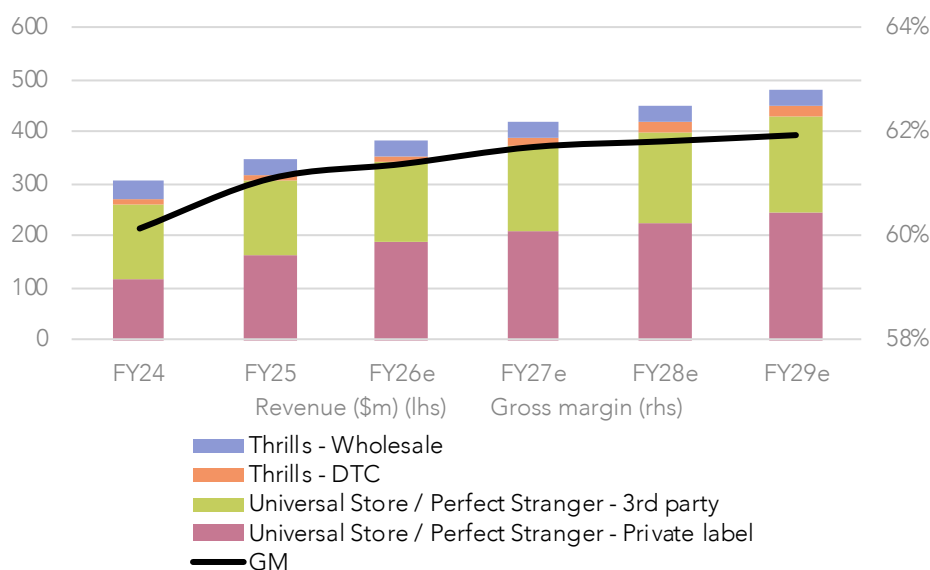
Despite cost-of-living pressures, UNI's youth customer base has been resilient, prioritising discretionary apparel spending, with UNI's brand positioning resonating strongly with its base. Recent CBA data has shown that general discretionary spending among this demographic has been materially boosted by rate cuts, which positions UNI well.

Management continues to operate with excellence despite the backdrop, and is currently focused on: targeted discounts to move slow moving categories; expanding in-demand products and using data to quickly replenish winners; improving store layouts to advertise in-demand products prominently; and increasing cross-merchandising to expand basket sizes.

Good value for its growth prospects

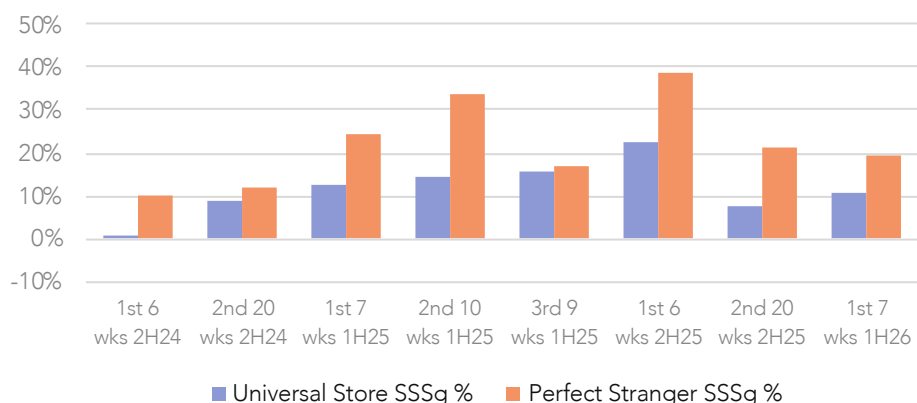
Despite having a strong share price run, UNI still offers compelling value given its strong outlook. At a forward P/E of ~16x, it trades at over a 40% discount to the sector, while offering one of the strongest medium-term EPS growth rates of 28% from FY25-28. This gives it a PEG of just 0.6, one of the most attractive in the sector, as seen in Figure 6. Despite strong comps, UNI is continuing its impressive streak in same store sales, demonstrating its attractive growth story.

Figure 10: Growth in high margin Private Label is key to group margin expansion



Source: Visible Alpha, Wilsons Advisory.

Figure 11: Strong same store growth momentum despite strong comps reveals an attractive growth story



SSSg figures are calculated from trading updates, half yearly and annual results. Source: Company filings, Wilsons Advisory.

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