

WPP

CMD targets first blush: surprisingly bullish on margin

Maintain Rating: UNDERPERFORM | PO: 630.00 GBp | Price: 780.60 GBp

Bullish margin target is the biggest surprise

Following 2 top-line warnings, WPP's pre CMD press release could soothe sentiment short-term as 1) 4Q23 came in better than expected 2) The 2024 and mid-term targets are in line with expectations on top-line and surprisingly bullish on margin. That said, given a mixed track-record in hitting targets, we think execution will be crucial for a durable re-rating. Experience from peers like Publicis shows that the market rerates agencies for top-line driven EPS growth rather than margin expansion. The CMD will kick off at 1pm today.

FY23 beats, though details missing

FY23 LFL came in at +0.9%, implying 4Q23 +0.4%, ahead of consensus -0.5% though investor expectations had likely gone up post Publicis beat (+5.7% vs +4.2%e). FY23 headline operating margin is seen 14.8% or 10bp ahead of expectations. FY23 results will be fully released on 22nd February.

FY24 guidance brackets consensus for now

For FY24, WPP sees 0-1% LFL growth bracketing consensus on +0.5%. We think investors feared 0% or worse though worth keeping in mind the initial 2023 guidance was missed by ~300bp while FY24 is likely to be 2H24 tilted. More surprisingly given the sluggish top-line, headline operating margin is seen expanding 20-40bp (consensus: +10bp) supported by £50-60m of net cost savings (= 40/50bp) though coming with £125m of restructuring costs, booked below the line.

Mid-term targets more bullish on margin, in line for revenue growth

Mid-term, WPP targets 3%+ LFL growth, broadly in line with the prior target for "3-4% including 50-100bp of M&A". Top-line improvement is expected to be driven by 1) WPP's lead in AI 2) Better integration/cross-fertilisation of WPP services 3) Unlocking synergies through recent internal mergers and new organisation in units like GroupM. Margin is the biggest surprise with WPP aiming for 16-17% headline operating margin, higher than the prior 15%, driven by £175m of annualised gross cost savings. Adjusted operating cash flow conversion, a new metric, is seen at 85%+. There is no reference to target leverage or potential asset disposals. The dividend is expected to be "progressive" but no reference was made to a targeted payout.

30 January 2024

Equity

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Stock Data

Price (Common / ADR)	780.60 GBp / 49.95 USD
Price Objective	630.00 GBp / 39.00 USD
Date Established	18-Jan-2024 / 26-Oct-2023
Investment Opinion	B-3-7 / B-3-7
52-Week Range	656.00 GBp-1,082 GBp
Market Value (mn)	8,490 GBP
Shares Outstanding (mn)	1,087.6 / 217.5
Average Daily Value (mn)	19.93 USD
Free Float	99.9%
BofA Ticker / Exchange	WPPGF / LSE
BofA Ticker / Exchange	WPP / NYS
Bloomberg / Reuters	WPP LN / WPP.L
ROE (2023E)	28.2%
Net Dbt to Eqty (Dec-2022A)	59.6%
ESGMeter™	High

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CMD = Capital Markets Day

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Timestamp: 30 January 2024 03:05AM EST

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WPP (WPPGF / WPP)

Our price objective of 630p (ADR \$39) is based on the average of a discounted cash flow (weighted-average cost of capital 9%, long-term growth 0.75%) and a target multiple of c7x 2023 FCF/share (= 9x 2024) + 30p/share for associates, a 30% discount to the market, reflecting the group's structural headwinds and unfavourable cyclicity.

Upside risks to our price objective are if i) the global synchronized recovery leads to a relief on marketing spending, ii) WPP actively repositions its assets, simplifying its structure, tearing down silos, or selling non-performing units, iii) the secular wave of consolidation comes back, either between agencies or between consultancies and agencies, iv) assets, for example, are sold at better valuations than we expect.

Downside risks to our price objective are if i) WPP loses a big account and /or a large account decreases its media spend, ii) macro decelerates abruptly and consultancies have a bigger and earlier impact than expected, iii) asset disposals could prove more dilutive to EPS/FCF than we anticipated.

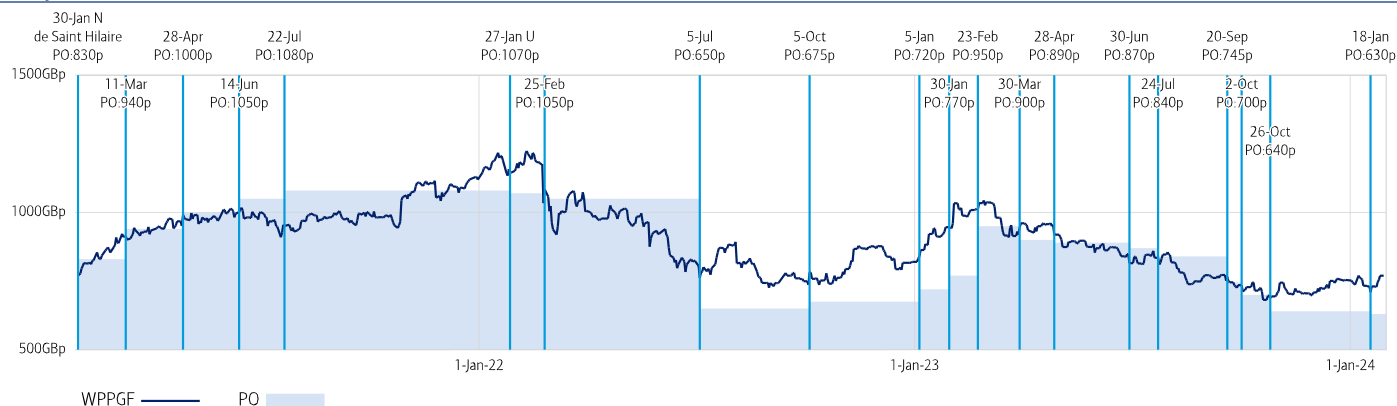
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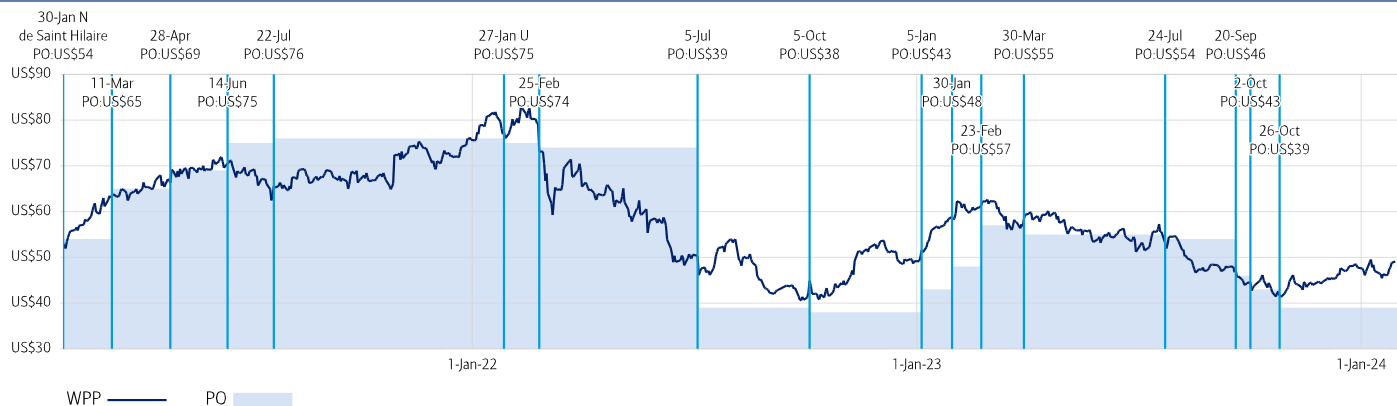
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WPP Group (WPPGF) Price Chart



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WPP Group (WPP) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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