Movado Group Incorporated Pulls Back After Robust Results

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Movado Group Incorporated Fueled By Reopening Tailwind

We started to get interested in the Movado Group (NYSE: MOV) a few years ago. The company is a retailer of watches and other consumer discretionary items and its share price had been pulling back from a high. With the share prices falling the value was improving and so was the dividend yield and all in the face of a rapidly improving consumer outlook. There were a lot of things to like. And then came the pandemic. When covid-19 shut down the world the Movado Group’s Revenue was cut in half. Fortunately, swift decisions by the company’s executives helped preserve the fortress balance sheet and have the company set up for robust gains in the post-pandemic world.

Movado Group Inc Bounces Back In Q1 Fiscal 2022

Movado Group Inc had a great first quarter in which they brought in 134.8 million dollars. This is up 93.4% from last

year and beat the consensus by nearly 2000 basis points but the two-year comp is still negative. Despite this, there are other glimmers of hope within the data that point to accelerating momentum for the business. The US segment, which has so far had the quickest rebound, saw its net sales exceed the pre-pandemic level for first-quarter results by nearly 11%. Sales in the international segment are down 20.1% for the quarter due to continued closures of stores in Europe and Latin America. Sales through Movado.com are up 250% YOY And we are not surprised to hear that. Digital is a driving force of the evolving Movado strategy.

Other glimmers of hope emerge as we move down the report. For one, the adjusted gross margin widened by 420 basis points versus the prior year to come in at 55% of revenue. This time, the 2-year comparison is positive with the adjusted gross margin up more than one full percent from the first quarter of fiscal 2020. The adjusted operating income of $14.1 million reverse is a loss in last year's quarter and nearly doubles the operating profit of 2 years ago. The margin gains can also be seen on the bottom line with GAAP earnings of $0.52 and adjusted earnings of $0.43 exceeding the consensus estimates. On an adjusted basis the $0.43 beats by $0.52 and is nearly double what the company posted 2 years ago.

"As we look to the remainder of the year, we feel good about the underlying momentum of our business and the growth prospects across our portfolio of brands. However, we remain cautious given continued uncertainty relating to the pandemic. We are hopeful that as more people become vaccinated, we will see an acceleration in reopening of markets in Europe and Latin America. Given our momentum from the first quarter combined with the strength of our balance sheet, we are well-positioned to deliver sustainable growth over the long-term." Says CEO Efraim Grinberg.

The Movado Group Incorporated Dividend Looks Safe Enough

We say the Movado Group Incorporated dividend looks safe enough but there is a caveat. The company takes its fortress-like balance sheet very seriously, when the bottom fell out of business in calendar 2021 the very first thing they did was cut the dividend so there is a risk of that happening again. That said, the company has reinstated the payment at the previous pre-pandemic level and looks like it could easily sustain a dividend increase this year if not now. The company has been able to maintain its strong balance sheet, it has $187 million dollars on hand, and has been able to reduce debt by more than $70 million dollars to free up more cash flow. The second-quarter distribution goes ex-dividend on June 8th and annualizes to a 2.62% Yield.

The Technical Outlook: Movado Group Inc Trapped In A Range

Shares of Movado Group Inc have been trading in a fairly tight range over the past two months. Based on the company’s recovery and outlook for the coming year, we think the range is a consolidation that will lead to new highs fairly soon. The hurdle now is resistance at the $32 level and price action may move lower before it retests that level again. If support does not reestablish itself at the $29.50 level we see price action falling to $27.50 and possibly lower. In either case, we see bargain hunters and dividend growth investors scooping up the stock and driving it to fresh highs by year-end.

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