

Cabela's Inc.

Consumer- Retail October 26, 2009

Company Description: *Cabela's Inc. is the world's largest direct marketer and retailer of hunting, fishing, camping and related outdoor merchandise. Founded in 1961, Cabela's publishes and delivers over 130 million retail catalogs annually and operates 30 large retail stores in the U.S. and Canada. Additionally, CAB operates World's Foremost Bank, through which it issues and manages the Cabela's CLUB Visa card and other loyalty rewards programs. The company's headquarters are in Sidney, Nebraska.*

3Q:09 Earnings Preview

(CAB - \$14.50) BUY

Key Points

- We project 3Q:09 EPS of \$0.19 on \$639 million revenue.
- We think 3Q:09 results were boosted by continued strong sales in the hunting equipment category, including firearms and ammunition.
- The credit card business is healthy, in our view, as evidenced by strong Master Trust data.
- CAB is undervalued trading at 11.5x next year's earnings while its sporting goods peers and other large-box retailers trade at approximately 15x-16x.
- We reiterate our BUY rating and \$19 price target.

	3Q:08 Actual	3Q:09 Estimate	YOY Change	Consensus
Total Revenue	\$611,800	\$638,557	4.4%	\$623,390
Operating Income	\$20,845	\$24,796	19.0%	\$23,840
Net Income	\$9,722	\$12,900	32.7%	\$12,250
Diluted EPS	\$0.14	\$0.19	31.5%	\$0.18

Management will report 3Q:09 results before the market opens on October 27th and will host a conference call that day at 10:00 a.m. Central to discuss results. The call may be accessed at the company's website, www.cabelas.com.

We think CAB had a strong 3Q:09. We project revenue increased 4.4% year-over-year to \$638.6 million. We think the revenue was boosted by continued high sales of firearms and ammunition. FBI background checks for firearm purchases in 3Q:09 increased over 11% compared to the prior year and channel checks show continued high demand for ammunition. We think late summer demand for fishing equipment was strong, but slowed from growth in 2Q:09. CAB is continuing to take market share, in our view. As sales continue to shift away from firearms and into other categories, we expect margin expansion; we project operating margin of 3.88% in 3Q:09 versus 3.41% in 3Q:08 due to cutting SG&A expense. Additionally, we think the credit card business is healthy with 3Q:09 gross charge-offs below our expectations. We maintain our EPS estimate of \$0.19

We are cautiously optimistic for 4Q:09. We note that CAB faces headwinds entering 4Q:09, namely, difficult prior-year-comps due to high firearm sales and a distressed consumer. Despite the headwinds, we think the company will report slight earnings growth. We think a shift in sales away from firearms will help boost margins as the company faces easy comps excluding firearms. We expect the credit card business to remain healthy, but note the recent trend in delinquencies keep us cautious in our outlook. We think fall hunting seasons will see more sportsmen in the field, a possible boost to 4Q:09 results.

INVESTMENT THESIS

We reiterate our BUY rating and \$19 price target. We think CAB experienced a strong 3Q:09 and expect positive results to continue into 4Q:09. As the company begins to comp over difficult prior year sales of guns we expect same-store sales will decline, but margins may increase as sales shift to higher margin products. We are cautiously optimistic on our outlook for the sales environment and the credit card business for CAB. We think the shares are undervalued relative to CAB's peers. CAB currently trades at 11.5x our 2010 EPS estimate while its peers trade between 15x-16x forward earnings. We derive our \$19 price target by applying a 15x multiple to our 2010 EPS estimate of \$1.26.

Financial Summary

Rev(mil)	2008A	2009E	2010E
Mar	\$536	\$540A	\$530E
Jun	\$526	\$549A	\$540E
Sep	\$612	\$639E	\$654E
Dec	\$879	\$850E	\$870E
FY	\$2,553	\$2,577E	\$2,593E
P/Sales	0.38x	0.38x	0.37x

EPS	2008A	2009E	2010E
Mar	\$0.15	\$0.08A	\$0.09E
Jun	\$0.11	\$0.17A	\$0.18E
Sep	\$0.14	\$0.19E	\$0.22E
Dec	\$0.74	\$0.76E	\$0.77E
FY	\$1.14	\$1.20E	\$1.26E
P/E	12.7x	12.1x	11.5x

Price:	\$14.50
52-Week Range:	\$17.73-\$4.18
Target:	\$19.00
Rating:	BUY
Shares Outstanding:	67.0 mil
Mkt. Capitalization:	\$972 mil
Ave. Volume:	1,020,000
Instit. Ownership:	59%
BV / Share:	\$13.84
Debt / Tot. Cap.:	34%
Est. LT EPS Growth:	8%

Cabela's Incorporated. Income Statement

\$ in thousands except per share amounts	Fiscal Year	Mar-08	Jun-08	Sep-08	Dec-08	Fiscal Year	Mar-09	Jun-09	Sep-09	Dec-09	Fiscal Year	Mar-10	Jun-10	Sep-10	Dec-10	Fiscal Year
	2007	Q1	Q2	Q3	Q4	2008A	Q1 A	Q2 A	Q3 E	Q4 E	2009E	Q1 E	Q2 E	Q3 E	Q4 E	2010E
Retail	1,043,442	254,375	273,624	327,974	429,523	1,285,496	275,526	301,633	366,158	398,761	1,342,078	266,101	302,708	381,713	425,120	1,375,643
Direct	1,130,553	236,536	207,016	241,228	410,379	1,095,159	225,352	199,512	234,715	412,021	1,071,599	225,577	198,115	231,664	402,544	1,057,900
Merchandise revenue	2,173,995	490,911	480,640	569,202	839,902	2,380,655	500,878	501,145	600,873	810,782	2,413,677	491,679	500,823	613,377	827,664	2,433,544
% change	13.9%	16.2%	19.1%	14.0%	-1.0%	9.5%	2.0%	4.3%	5.6%	-3.5%	1.4%	-1.8%	-0.1%	2.1%	2.1%	0.8%
Financial services revenue	159,335	40,708	38,253	41,896	38,114	158,971	33,894	44,129	35,784	37,100	150,907	36,192	36,866	38,685	40,525	152,267
% change	15.9%	13.9%	-6.7%	-6.4%	0.7%	-0.2%	-16.7%	15.4%	-14.6%	-2.7%	-5.1%	6.8%	-16.5%	8.1%	9.2%	0.9%
Other revenue	16,269	3,920	7,059	702	1,414	13,095	4,768	3,962	1,900	1,800	12,430	1,900	2,100	1,500	2,000	7,500
% change	-6.0%	5.4%	4.4%	-75.6%	-51.4%	-19.5%	21.6%	-43.9%	170.7%	27.3%	-5.1%	-60.2%	-47.0%	-21.1%	11.1%	-39.7%
Total revenue	2,349,599	535,539	525,952	611,800	879,430	2,552,721	539,540	549,236	638,557	849,682	2,577,015	529,770	539,789	653,562	870,189	2,593,311
% change	13.9%	15.9%	16.6%	11.9%	-1.1%	8.6%	0.7%	4.4%	4.4%	-3.4%	1.0%	-1.8%	-1.7%	2.3%	2.4%	0.6%
Cost of sales:																
Merchandise	1,378,386	313,802	316,386	376,057	533,969	1,540,214	326,314	326,060	395,374	513,630	1,561,378	318,116	325,034	403,602	530,533	1,577,285
% of merchandise sales	63.4%	63.9%	65.8%	66.1%	63.6%	64.7%	65.1%	65.1%	65.8%	63.4%	64.7%	64.7%	64.9%	65.8%	64.1%	64.8%
Total cost of sales	1,378,386	313,802	316,386	376,057	533,969	1,540,214	326,314	326,060	395,374	513,630	1,561,378	318,116	325,034	403,602	530,533	1,577,285
Gross Profit	971,213	221,737	209,566	235,743	345,461	1,012,507	213,226	223,176	243,183	336,052	1,015,636	211,654	214,755	249,960	339,656	1,016,025
Selling, distribution and administrative	820,121	200,651	194,714	214,898	261,205	871,468	200,900	192,536	218,386	250,656	862,479	198,134	191,085	221,558	252,355	863,132
% of revenue	34.9%	37.5%	37.0%	35.1%	29.7%	34.1%	37.2%	35.1%	34.2%	29.5%	33.5%	37.4%	35.4%	33.9%	29.0%	33.3%
Operating income	151,092	21,086	14,852	20,845	84,256	141,039	12,326	30,640	24,796	85,395	153,158	13,520	23,669	28,402	87,301	152,893
Interest income (expense)	(18,778)	(7,141)	(7,748)	(7,510)	(7,259)	(29,658)	(5,834)	(6,054)	(6,350)	(6,000)	(24,238)	(6,000)	(6,450)	(6,400)	(6,000)	(24,850)
Other income, net	6,913	1,859	1,755	1,616	1,624	6,854	2,046	(10,038)	1,710	1,640	(4,642)	1,825	1,680	1,730	1,675	6,910
Income before income taxes	139,227	15,804	8,859	14,951	78,621	118,235	8,538	14,548	20,156	81,035	124,278	9,345	18,899	23,732	82,976	134,953
Income tax expense	51,348	5,848	1,580	5,229	29,174	41,831	3,410	5,425	7,256	29,173	45,264	3,411	6,898	8,662	30,286	49,258
Tax rate %	36.9%	37.0%	17.8%	35.0%	37.1%	35.4%	39.9%	37.3%	36.0%	36.0%	36.4%	36.5%	36.5%	36.5%	36.5%	36.5%
Net income	87,879	9,956	7,279	9,722	49,447	76,404	5,128	11,196	12,900	51,863	81,087	5,934	12,001	15,070	52,690	85,695
EPS	1.31	0.15	0.11	0.14	0.74	1.14	0.08	0.17	0.19	0.76	1.20	0.09	0.18	0.22	0.77	1.26
EPS growth rate	1.5%	40.5%	-35.1%	-26.5%	-12.3%	-12.9%	-48.6%	52.2%	31.5%	3.5%	5.7%	13.5%	6.4%	15.8%	0.6%	4.5%
Diluted shares	67,276	66,576	66,853	67,051	66,934	67,159	66,663	67,570	67,650	67,850	67,433	67,950	68,100	68,250	68,500	68,200
EBITDA	210,955	38,833	30,947	35,189	100,743	205,712	29,698	48,124	39,796	102,395	220,014	30,520	40,669	44,402	104,301	219,893

Analyst Certification

I, **Mark E. Smith**, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

Important Disclosures:

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Feltl and Company Rating System: Feltl and Company utilizes a four tier rating system for potential total returns over the next 12 months.

Strong Buy: The stock is expected to have total return potential of at least 30%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.

Buy: The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.

Hold: The stock is expected to have total return potential of less than 15%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.

Sell: Expect a negative total return. Current positions may be used as a source of funds.

10/26/2009				
Ratings Distribution for Feltl and Company				
Rating	Number of Stocks	Percent of Total	----- Investment Banking -----	
			Number of Stocks	Percent of Rating category
SB/Buy	25	60%	2	8%
Hold	16	38%	0	0%
Sell	1	2%	0	0%
	42	100%	2	5%

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.



Date	Nature of Report	Rating	Price Target
03/12/09	Initiation @ \$8.40	Hold	\$9.00
04/15/09	Upgrade to BUY, Raise Price Target	Buy	\$13.00
05/01/09	Raise Price Target	Buy	\$16.00
07/30/09	Raise Price Target	Buy	\$19.00

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Valuation and Price Target Methodology:

We derive our \$19.00 price target by applying a 15x multiple to our 2010 EPS estimate of \$1.26.

Risks to Achievement of Estimates and Price Target:

- Cabela's business may be impacted by consumers' discretionary spending and confidence. Macroeconomic factors such as increasing gasoline prices, unemployment and generally tough economic times may negatively impact consumers' retail spending. Changing consumer outdoor trends could also have a negative impact on sales.
- Severe weather may slow sales for CAB as this could have a negative impact on outdoor activities.
- Volatile commodity prices may affect earnings. Paper is a large component of catalog costs in the direct merchandise business.
- There is no guarantee that Cabela's stores will be successful in new markets. Cabela's has a small number of current units with only 29 stores. The company's acquisition of S.I.R in Canada may not produce similar results and growth in foreign markets may produce results below stores opened in the U.S.
- The retail business is extremely competitive and competition for customers through lower prices may negatively impact CAB's returns. Discounted prices at CAB's largest competitors may cause the company to lower prices to maintain its market share.
- CAB's banking subsidiary operates in a highly regulated industry. Loss of the company's charter, changes in capital requirements or any other regulatory changes could have a negative impact on results.
- CAB may experience limited availability of financing for the financial services business as experienced in late 2008 and 2009 with the freezing of the asset-backed lending market.
- The credit card business is likely to experience fluctuations in charge-offs due to bad debt. Consumers' inability to pay off credit card debts could impede results in the financial services business.
- The company is dependant on its vendors. Any disruption in the supply chain could have a negative impact on results. Geo-political disruptions could impact the supply chain as many of CAB's vendors operate in foreign markets.
- CAB's business is highly seasonal with high revenue and the majority of earnings in the fourth calendar quarter. If fourth quarter results were somehow impeded it could have a large impact on revenue and earnings.
- Readers should recognize that the risks noted here do not represent a comprehensive list of all risk factors or potential issues, nor all factors that may preclude achievement of our forecast or price target. Additional risk factors exist and are outlined in the Company's SEC filings

Other Disclosures:

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