11 March 2021

Viva Leisure Limited (VVA) BUY Share Price: A$2.67

Gyms globally show core strength after COVID pain Target Price: A$4.00

Viva is executing well despite the severe COVID headwinds it faced recently, including having its gym portfolio face a total lockdown in Victoria through the majority of the last half and local community concerns regarding the hygiene safety of gyms amidst a global pandemic. VVA's gyms experienced lower demand and incurred higher labour costs leading to material operating deleverage during 1H21. However, this was a transitory rather than structural issue. Significantly, greater earnings deleverage was seen offshore, with operators like (Planet Fitness; PLNT) experiencing a quarter of negative earnings. Like VVA, global operators saw rapid decline in operating margins, however green shoots are beginning to emerge, with Planet's fourth quarter operating margin highlighting a rapid recovery. Further, consistent with commentary from VVA, 2021 member trends are improving as vaccines roll out. With the industry beginning to find stability again, we reiterate our BUY recommendation based on our A$4.00 target price.

COVID induced earnings impact to be short-lived

- The Australian government's & community expectations on a higher standard of hygiene through 1H21 saw VVA incur increased labour costs driving material operating de-leverage, with underlying EBITDA margin declining to 15.5% in 1H21 compared with 1H20: 24.4%.
- Likewise, global gym operators saw significant earnings impacts due to COVID however signs of a material and rapid recovery can already be seen, with Planet's corporate store margins in North America recovering to 32% in 4Q20 from 3Q20: 20%; 2Q: -68%; 4Q19: 37%.

2H21 earnings recovery to be rapid,

- We expect a strong performance in 2H21, with EBITDA improving 52% sequentially to A$8.5m.
- This is based on an improvement in the top line given high rates of visitations and a recovery in operating leverage, with margins in 2H21 improving back to 20%, resulting in average EBITDA margin of 17% for FY21F.
- Viva's gym portfolio consists of regional & suburban gyms meaning we are confident in near term demand.

Valuation Summary

- With an integrated technology driven business model generating industry leading margins and a highly experienced management team consolidating a fragmented industry, we believe the business is far too cheap at 15.0x FY22 P/E and 5.4x FY22F EBITDA.
- We reiterate our Buy recommendation, with 50% upside to our A$4.00 target price.

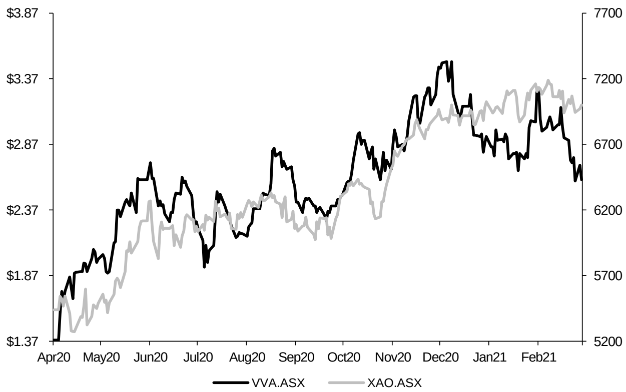
Company Data

Shares – ordinary (M)	82.0
Dilution (M)	3.1
Total (fully diluted) (M)	85.0
Market capitalisation ($M)	218.8
12 month low/high ($)	0.65/ 3.66
Average monthly turnover ($M)	3.8
GICS Industry	Hotels, Restaurants & Leisure

Financial Summary (fully diluted/normalised)

Year end Jun	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue ($M)	33.1	40.9	82.0	129.7	170.4
Costs ($M)	-25.9	-34.8	-67.9	-93.2	-117.3
EBITDA ($M)	7.2	6.1	14.1	36.5	53.1
NPAT ($M)	3.1	1.430	2.6	15.2	24.0
EPS (¢ps)	5.5	2.4	3.0	17.9	28.2
EPS Growth (%)	na	-57%	27%	494%	58%
PER (x)	48.2	na	88.6	14.9	9.5
Free Cashflow ($M)	3.4	-13.7	-6.8	13.2	21.5
FCFPS (¢ps)	4.2	-16.7	-8.2	16.1	26.2
P/FCFPS (x)	64.1	-16.0	-32.4	16.5	10.2
Enterprise Value ($M)	212.4	196.7	198.2	197.4	184.6
EV / EBITDA (x)	29.5	32.4	14.0	5.4	3.5
Payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Dividends (¢ps)	0.0	0.0	2.0	10.0	14.0
Yield (%)	0.0	0.0	0.7	3.7	5.2
Franking (%)	na	na	100.0	100.0	100.0

VVA – performance over one year



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This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was co-manager for this company's placement to raise $30m at $2.90/sh on 27th November 2020 for which a fee was received.

Nick Basile

+61 2 9239 9633

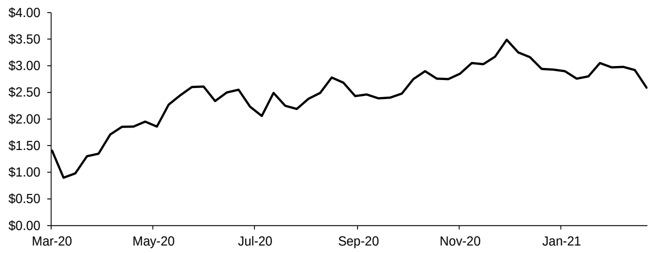
Analysis

Viva Leisure Ltd

Year end 30 June

MARKET DATA		
Recommendation		Buy
Price	**$**	**2.67**
Target price (12-month)	**$**	**4.00**
52 week low / high	$	0.66 / 3.66
Market capitalisation	**$m**	**218.8**
Shares on issue (basic)	no.	82.0
Options / rights	no.	3.1
Other equity	no.	0.0
Shares on issue (diluted)	no.	85.0

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		FY19A	FY20A	FY21F	FY22F	FY23F
NPAT (reported)	$m	2.2	1.4	2.6	15.2	24.0
NPATA (pro forma)	**$m**	**3.1**	**1.4**	**2.6**	**15.2**	**24.0**
EPS (Reported, undiluted)	¢	4.1	2.5	3.3	18.6	29.3
EPS (NPATA PF, diluted)	**¢**	**5.5**	**2.4**	**3.0**	**17.9**	**28.2**
Growth	*%*	*na*	*-57%*	*27%*	*494%*	*58%*
PER normalised	**x**	**48.2**	**na**	**88.6**	**14.9**	**9.5**
Operating cash flow per share	¢	9.0	4.4	16.8	35.1	51.1
Free cash flow per share	¢	4.2	(16.7)	(8.2)	16.1	26.2
Price to free cash flow per share	**x**	**64.1**	**(16.0)**	**(32.4)**	**16.5**	**10.2**
FCF yield	%	1.6	(6.3)	(3.1)	6.0	9.8
Dividend	**¢**	**0.0**	**0.0**	**2.0**	**10.0**	**14.0**
Payout	%	0.0	0.0	50.0	50.0	50.0
Yield	**%**	**0.0%**	**0.0%**	**0.7%**	**3.7%**	**5.2%**
Franking	%	na	na	100.0	100.0	100.0
Enterprise value	**$m**	**212.4**	**196.7**	**198.2**	**197.4**	**184.6**
EV/EBITDA	x	29.5	32.4	14.0	5.4	3.5
EV/EBIT	x	43.6	98.4	38.7	8.4	5.1
Price to book (NAV)	x	8.5	3.5	2.3	2.1	1.8
Price to NTA	x	5.8	0.7	0.6	0.6	0.6

KEY RATIOS		FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA margin	%	21.8	14.8	17.2	28.1	31.1
EBIT margin	%	14.7	4.9	6.2	18.1	21.1
NPAT margin	%	9.3	3.5	3.1	11.7	14.1
ROE	%	11.9	2.3	2.7	14.5	19.9
ROA	%	6.9	0.4	0.7	4.1	6.2
Net debt / (cash) ex leases	$m	(6.4)	(22.1)	(20.6)	(21.4)	(34.3)
Interest cover (EBIT / Net interest)	x	7.1	2.6	3.5	13.3	20.6
Leverage (Net debt / EBITDA)	x	0.0	0.0	0.0	0.0	0.0
Gearing (ND / (ND+E))	%	0%	0%	0%	0%	0%

DUPONT ANALYSIS		FY19A	FY20A	FY21F	FY22F	FY23F
Net Profit Margin	%	9.3	3.5	3.1	11.7	14.1
Asset Turnover	x	0.7	0.1	0.2	0.4	0.4
Return on Assets	%	6.9	0.4	0.7	4.1	6.2
Financial Leverage	x	1.7	5.0	3.7	3.5	3.2
Return on Equity	**%**	**11.9**	**2.3**	**2.7**	**14.5**	**19.9**

GROWTH PROFILE		FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	%	na	23.6	100.6	58.1	31.4
EBITDA	%	na	(15.7)	133.0	157.7	45.5
EBIT	%	na	(58.9)	156.2	358.6	53.3
NPAT (pe AASB16)	%	na	(53.4)	na	493.5	57.8
EPS (NPATA PF, diluted)	%	na	(57.3)	na	493.5	57.8

PROFIT AND LOSS (P&L)		FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	$m	33.1	40.9	82.0	129.7	170.4
EBITDA	**$m**	**7.2**	**6.1**	**14.1**	**36.5**	**53.1**
Depreciation & amortisation	$m	(2.3)	(4.1)	(9.0)	(13.0)	(17.0)
EBIT	**$m**	**4.9**	**2.0**	**5.1**	**23.5**	**36.0**
Net interest	$m	(0.7)	(0.8)	(1.5)	(1.8)	(1.7)
Associate income	$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	**$m**	**4.2**	**1.2**	**3.7**	**21.7**	**34.3**
Tax expense	$m	(1.1)	0.2	(1.1)	(6.5)	(10.3)
NPAT (pe AASB16)	**$m**	**3.1**	**1.4**	**2.6**	**15.2**	**24.0**
Amortisation add-back	$m	0.0	0.0	0.0	0.0	0.0
NPAT (pe AASB16)	**$m**	**3.1**	**1.4**	**2.6**	**15.2**	**24.0**
Significant items	$m	(0.9)	0.0	0.0	0.0	0.0
Reported NPAT	***$m***	***2.2***	***1.4***	***2.6***	***15.2***	***24.0***

BALANCE SHEET		FY19A	FY20A	FY21F	FY22F	FY23F
Cash	$m	14.4	30.1	28.6	29.4	42.3
Receivables	$m	0.2	2.7	5.3	8.4	11.0
Inventory	$m	0.0	0.0	0.0	0.0	0.0
Other	$m	0.4	3.0	3.0	3.0	3.0
Current	**$m**	**15.0**	**35.7**	**36.9**	**40.8**	**56.3**
Prop, plant & equip	$m	19.2	205.5	242.8	255.0	261.8
Intangibles	$m	6.6	20.5	18.9	16.3	12.9
Other	$m	3.6	57.7	57.7	57.7	57.7
Non current	**$m**	**29.3**	**283.8**	**319.4**	**329.0**	**332.4**
Total assets	**$m**	**44.3**	**319.5**	**356.3**	**369.8**	**388.7**
Accounts Payable	$m	2.5	5.1	9.9	13.6	17.2
Borrowings	$m	7.9	8.0	8.0	8.0	8.0
Other	$m	8.1	243.1	243.1	243.1	243.1
Total liabilities	**$m**	**18.5**	**256.2**	**261.0**	**264.7**	**268.3**
Shareholder's equity	**$m**	**25.8**	**63.3**	**95.2**	**105.0**	**120.4**

CASH FLOW		FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA	$m	7.2	6.1	14.1	36.5	53.1
Change in working capital	$m	0.0	0.1	2.2	0.6	0.9
Net interest	$m	(0.6)	(0.8)	(1.5)	(1.8)	(1.7)
Tax paid	$m	(0.5)	(1.6)	(1.1)	(6.5)	(10.3)
Other	$m	1.2	(0.2)	0.0	0.0	0.0
Operating cash flow	**$m**	**7.3**	**3.6**	**13.8**	**28.8**	**41.9**
Capex	$m	(3.9)	(17.3)	(20.5)	(15.6)	(20.4)
Acquisitions	$m	(7.1)	(17.7)	(24.1)	(7.0)	0.0
Other	$m	(0.2)	(0.0)	0.0	0.0	0.0
Investing cash flow	**$m**	**(11.2)**	**(35.1)**	**(44.6)**	**(22.6)**	**(20.4)**
Equity issuance	$m	23.5	45.0	30.0	0.0	0.0
Increase / (decrease) in borrowings	$m	(3.5)	8.0	0.0	0.0	0.0
Dividends / other	$m	(2.9)	(5.8)	(0.6)	(5.4)	(8.6)
Financing cash flow	**$m**	**17.1**	**47.1**	**29.4**	**(5.4)**	**(8.6)**
Net cash flow	**$m**	**13.9**	**15.7**	**(1.5)**	**0.8**	**12.8**
Free cash flow	$m	3.4	(13.7)	(6.8)	13.2	21.5

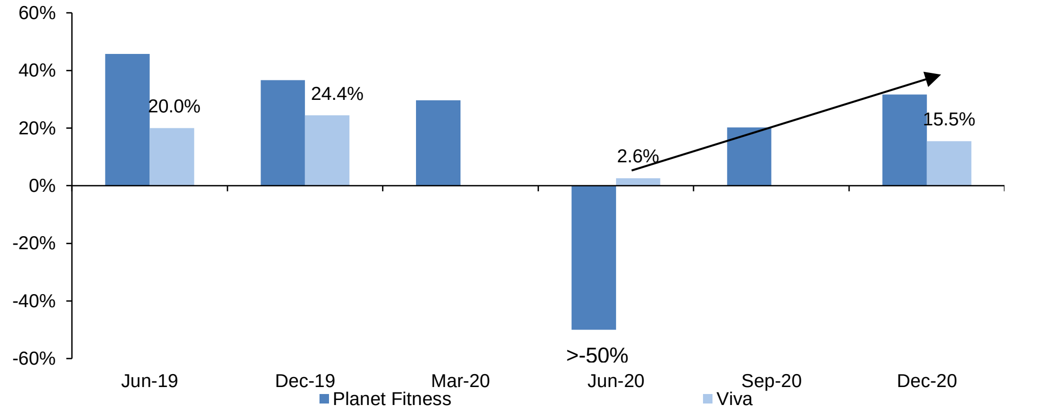
Source: Petra Capital

Gyms globally show core strength after COVID pain

Global gym operators saw a rapid decline in EBITDA margins in the immediate aftermath of COVID lockdowns impacting from March 2020 through to late 2020. Viva Leisure, like its global gym operator peer in the U.S, Planet fitness, saw a material decline in margins in the six months & three months to June 2020 respectively, however improving visitation trends is driving a steady rebound in margins.

As seen in Figure 1, VVA's EBITDA margins fell to 2.6% in 2H20 from ~20% in the pcp, albeit have since recovered to 15.5% in the 1H21. Meanwhile Planet fitness, which reports quarterly is already tracking at 32% in the final quarter of 2020, down only modestly vs the 37% in the pcp.

Figure 1: EBITDA Margins: VVA (half yearly) & Planet Fitness (corporate store; qrtly)



Source: Company data

Valuation

VVA is trading on a P/E of ~15.0x FY22F and EV/EBITDA of 5.4x vs care driven ASX peers on 20x FY22 P/E at a significant 30% premium to VVA, which we see as unjustified given the robust overall EPS CAGR we expect for VVA, i.e. 50% EPS CAGR between FY19 to FY23F. We also note U.K based TGG is trading on a 40x FY22 (Dec y/e) EV/EBITDA highlighting VVA's relative value.

We value VVA on a 50/50 20x P/E (A$3.58) and DCF valuation (A$4.51). With c.50% upside to our A$4.00 target price, we reiterate our BUY recommendation.

Figure 2: ASX peer comps trading on a median of 20x FY22 P/E, 30% premium to VVA

Security	Price	Market Cap	P/E		EV/EBITDA	
Care driven ASX peers	**A$**	**(A$m)**	**1FY**	**2FY**	**1FY**	**2FY**
Experience Co.	0.26	141.7	N/A	51.0	25.4	12.9
Evolve Education	1.29	179.7	13.8	9.9	15.4	12.2
1300 Smiles	7.29	172.6	18.8	18.2	10.3	10.2
Capitol Health	0.33	341.6	20.8	20.8	8.9	9.3
Pacific Smiles	2.59	412.5	26.4	26.7	13.7	13.2
Virtus Health	6.17	496.0	14.2	15.8	8.5	8.8
G8 Education	1.04	877.0	17.0	13.3	14.4	10.8
Integral Diagnostics	4.47	886.5	22.7	21.4	12.2	11.5
Mean			**19.1**	**22.1**	**13.6**	**11.1**
Median			**18.8**	**19.5**	**12.9**	**11.1**
Global Gym Operators						
The Gym Group (TGG)*	245.0	734.1	N/A	N/A	103.2	38.8
Planet Fitness (PLNT)*	81.85	9220.7	76.4	44.6	34.4	25.1
Viva Leisure	**2.67**	**218.8**	**88.6**	**14.9**	**14.0**	**5.4**

*Source: Bloomberg, Petra Capital, * Denotes December financial year end.*

11 March 2021

Petra Capital

Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	bmckay@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Research (Resources):	Hugh Stackpool	+61 (0)2 9239 9625	hstackpool@petracapital.com.au
Research (Resources):	David Brennan	+61 (0)2 9239 9630	dbrennan@petracapital.com.au
Research (Resources):	Andrew Harrington	+61 (0)2 9239 9614	aharrington@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Richard Amland	+61 (0)2 9239 9610	ramland@petracapital.com.au
Research (Industrials):	Nick Basile	+61 (0)2 9239 9633	nbasile@petracapital.com.au
Research (Industrials):	Ken Wagner	+61 (0)2 9239 9642	kwagner@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Leigh Gardner	+61 (0)2 9239 9620	lgardner@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Sales:	Paul Doherty	+61 (0)407 194 549	pdoherty@petracapital.com.au
Sales:	Trevor Pike	+61 (0)413 119 995	tpike@petracapital.com.au
Sales:	Darren Sheppard	+61 (0)417 039 647	dsheppard@petracapital.com.au
Sales:	Tyrone Lara	+61 (0)2 9239 9608	tlara@petracapital.com.au
Sales:	Vince Musumeci	+61 (0)2 9239 9606	vmusumeci@petracapital.com.au
Sales:	Rob Dobson	+61 (0)2 9239 9628	rdobson@petracapital.com.au
Sales:	Victoria Smith	+61 (0)2 9239 9616	vsmith@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Administration:	Belinda Teichmann	+61 (0)2 9239 9636	bteichmann@petracapital.com.au
Administration:	Nicole Sarapata	+61 (0)2 9239 9635	nsarapata@petracapital.com.au
Administration:	Katy Phillips	+61 (0)2 9239 9624	kphillips@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Administration:	Emma Pagalday	+61 (0)2 9239 9621	epagalday@petracapital.com.au
Legal & Compliance:	Danielle Smith	+61 (0)2 9239 9612	dsmith@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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