

20 October 2020

## Viva Leisure Limited (VVA)

**BUY**

**Share Price: A\$2.95**

**Sweating assets & club growth driving member gains**

**Target Price:**

**A\$4.60**

Viva announced a solid list of operational updates including robust growth in memberships and activity levels, well ahead of pre COVID levels. The addition of seven clubs in the Sep quarter and a solid development & M&A pipeline highlights material upside earnings potential. We upgrade our estimates on higher member numbers and our new target price rises to A\$4.60, we reiterate our Buy recommendation.

### Key Points from Announcement

- Memberships hit 100k in October, increasing from 96.4k in Feb 2020 and rebounding from 94k in June of this year, with some VIC members unable to attend and NSW on suspension. Including plus fitness, total membership (direct & network) is at 275k members.
- Member visits reached a new milestone in September of 552k, exceeding pre-COVID levels and highlighting strong demand for the service remains.
- Together with 10 locations in development to add to the 86 in the portfolio, VVA opened two new Plus fitness locations since the acquisition settled with sixteen more Plus fitness locations expected to open by FY21.
- On acquisitions, negotiations continue for the acquisition of up to 18 Plus Fitness locations. Meanwhile, VVA has completed the acquisition of FitHQ Campbelltown on 1x historic normalised EBITDA pre-synergies & close on another three NSW locations.

### Technology first leisure portfolio business

- Management's consistent focus on technology investment means VVA now possesses market-leading club management software, member joining processes and data-driven site selection process.
- VVA's in-house data analytics capability provides significant flexibility for the company to optimise its club offering for local markets and drive utilisation across its portfolio ahead of peers.

### Financial Summary

- We see VVA utilising its solid balance sheet to fund earnings growth (both organically and via acquisition), with an EBITDA CAGR of 102% over the next 3 years.
- The FY22 PER of 12.7x is highly attractive relative to a 3yr EPS CAGR of >140% and 18.3x peer average.
- Our FY21 & FY22F EBITDA forecast increases by 4% & 7% reflecting solid execution & operating metrics as well as greater visibility on portfolio expansion in FY21.
- Our 50/50 P/E (A\$4.28) & DCF (A\$4.90) target price rises to A\$4.60 (was A\$4.23) on earnings and DCF roll forward. We reiterate our Buy recommendation.

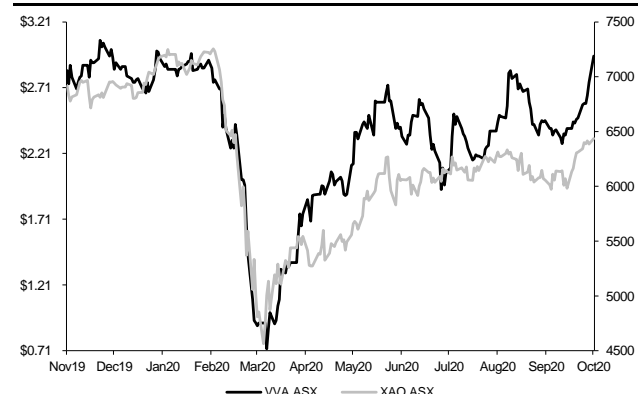
### Company Data

Shares – ordinary (M)	71.5
Dilution (M)	3.1
Total (fully diluted) (M)	74.6
Market capitalisation (\$M)	211.0
12 month low/high (\$)	0.70/ 2.95
Average monthly turnover (\$M)	6.2
GICS Industry	Hotels, Restaurants & Leisure

### Financial Summary (fully diluted/normalised)

Year end Jun	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue (\$M)	33.1	40.9	93.3	137.3	202.7
Costs (\$M)	-24.9	-34.8	-70.8	-96.9	-152.4
EBITDA (\$M)	8.2	6.1	22.5	40.4	50.3
NPAT (\$M)	4.1	1.4	7.5	17.4	20.9
EPS (¢ps)	7.3	1.9	10.0	23.3	28.1
EPS Growth (%)	na	-74%	100%	100%	20%
PER (x)	40.2	na	29.5	12.7	10.5
Free Cashflow (\$M)	3.4	-13.7	10.7	19.0	23.8
FCFPS (¢ps)	4.8	-19.1	15.0	26.6	33.3
P/FCFPS (x)	61.7	-15.4	19.7	11.1	8.9
Enterprise Value (\$M)	204.5	188.8	200.3	187.7	173.1
EV / EBITDA (x)	24.9	31.1	8.9	4.6	3.4
Payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Dividends (¢ps)	0.0	0.0	6.0	12.0	14.0
Yield (%)	0.0	0.0	2.0	4.1	4.7
Franking (%)	na	na	100.0	100.0	100.0

### VVA – performance over one year



### Disclosure and Disclaimer

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## Analysis

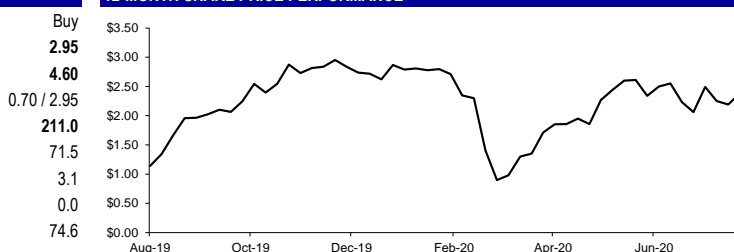
### Viva Leisure Ltd

Year end 30 June

#### MARKET DATA

Recommendation		Buy
Price	\$	2.95
Target price (12-month)	\$	4.60
52 week low / high	\$	0.70 / 2.95
Market capitalisation	\$m	211.0
Shares on issue (basic)	no.	71.5
Options / rights	no.	3.1
Other equity	no.	0.0
Shares on issue (diluted)	no.	74.6

#### 12-MONTH SHARE PRICE PERFORMANCE



#### INVESTMENT FUNDAMENTALS

	FY19A	FY20A	FY21F	FY22F	FY23F	
NPAT (reported)	\$m	3.2	1.4	7.5	17.4	20.9
NPATA (pro forma)	\$m	4.1	1.4	7.5	17.4	20.9
EPS (Reported, undiluted)	¢	6.0	2.0	10.4	24.3	29.3
EPS (NPATA PF, diluted)	¢	7.3	1.9	10.0	23.3	28.1
Growth	%	na	-74%	na	133%	20%
PER normalised	x	40.2	na	29.5	12.7	10.5
Operating cash flow per share	¢	10.3	5.1	28.0	45.8	61.6
Free cash flow per share	¢	4.8	(19.1)	15.0	26.6	33.3
Price to free cash flow per share	x	61.7	(15.4)	19.7	11.1	8.9
FCF yield	%	1.6	(6.5)	5.1	9.0	11.3
Dividend	¢	0.0	0.0	6.0	12.0	14.0
Payout	%	0.0	0.0	50.0	50.0	50.0
Yield	%	0.0%	0.0%	2.0%	4.1%	4.7%
Franking	%	na	na	100.0	100.0	100.0
Enterprise value	\$m	204.5	188.8	200.3	187.7	173.1
EV/EBITDA	x	24.9	31.1	8.9	4.6	3.4
EV/EBIT	x	34.8	94.4	17.0	7.2	5.6
Price to book (NAV)	x	8.2	3.3	3.1	2.7	2.3
Price to NTA	x	5.6	0.7	0.7	0.6	0.6

#### KEY RATIOS

	FY19A	FY20A	FY21F	FY22F	FY23F	
EBITDA margin	%	24.8	14.8	24.2	29.4	24.8
EBIT margin	%	17.7	4.9	12.7	18.9	15.3
NPAT margin	%	12.3	3.5	8.0	12.7	10.3
ROE	%	15.8	2.3	10.9	21.8	23.0
ROA	%	9.2	0.4	2.3	5.0	5.7
Net debt / (cash) ex leases	\$m	(6.4)	(22.1)	(10.7)	(23.3)	(37.8)
Interest cover (EBIT / Net interest)	x	8.6	2.6	10.3	22.6	27.7
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	%	12.3	3.5	8.0	12.7	10.3
Asset Turnover	x	0.7	0.1	0.3	0.4	0.6
Return on Assets	%	9.2	0.4	2.3	5.0	5.7
Financial Leverage	x	1.7	5.0	4.8	4.3	4.0
Return on Equity	%	15.8	2.3	10.9	21.8	23.0

#### GROWTH PROFILE

	FY19A	FY20A	FY21F	FY22F	FY23F	
Revenue	%	na	23.6	128.2	47.2	47.6
EBITDA	%	na	(26.0)	271.3	79.3	24.5
EBIT	%	na	(65.9)	490.5	120.1	19.4
NPATA	%	na	(64.8)	na	133.0	20.4
EPS (NPATA PF, diluted)	%	na	(73.9)	na	133.0	20.4

#### PROFIT AND LOSS (PF)

	FY19A	FY20A	FY21F	FY22F	FY23F	
Revenue	\$m	33.1	40.9	93.3	137.3	202.7
EBITDA	\$m	8.2	6.1	22.5	40.4	50.3
Depreciation & amortisation	\$m	(2.3)	(4.1)	(10.7)	(14.4)	(19.3)
EBIT	\$m	5.9	2.0	11.8	26.0	31.0
Net interest	\$m	(0.7)	(0.8)	(1.1)	(1.1)	(1.1)
Associate income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	5.2	1.2	10.7	24.8	29.9
Tax expense	\$m	(1.1)	0.2	(3.2)	(7.5)	(9.0)
NPAT (pro forma)	\$m	4.1	1.4	7.5	17.4	20.9
Amortisation add-back	\$m	0.0	0.0	0.0	0.0	0.0
NPATA	\$m	4.1	1.4	7.5	17.4	20.9
Significant items	\$m	(0.9)	0.0	0.0	0.0	0.0
Reported NPAT	\$m	3.2	1.4	7.5	17.4	20.9

#### BALANCE SHEET

	FY19A	FY20A	FY21F	FY22F	FY23F	
Cash	\$m	14.4	30.1	18.7	31.3	45.8
Receivables	\$m	0.2	2.7	6.1	8.9	13.1
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	27.7	43.2	61.9
Prop, plant & equip	\$m	19.2	205.5	226.5	229.2	235.3
Intangibles	\$m	6.6	20.5	18.2	14.8	9.7
Other	\$m	3.6	57.7	57.7	57.7	57.7
Non current	\$m	29.3	283.8	302.4	301.7	302.7
Total assets	\$m	44.3	319.5	330.1	344.9	364.6
Accounts Payable	\$m	2.5	5.1	10.4	14.2	22.3
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	261.5	265.3	273.4
Shareholder's equity	\$m	25.8	63.3	68.6	79.6	91.2

#### CASH FLOW

	FY19A	FY20A	FY21F	FY22F	FY23F	
EBITDA	\$m	8.2	6.1	22.5	40.4	50.3
Change in working capital	\$m	0.0	0.1	1.9	1.0	3.9
Net interest	\$m	(0.6)	(0.8)	(1.1)	(1.1)	(1.1)
Tax paid	\$m	(0.5)	(1.6)	(3.2)	(7.5)	(9.0)
Other	\$m	0.2	(0.2)	0.0	0.0	0.0
Operating cash flow	\$m	7.3	3.6	20.1	32.8	44.1
Capex	\$m	(3.9)	(17.3)	(9.3)	(13.7)	(20.3)
Acquisitions	\$m	(7.1)	(17.7)	(20.0)	0.0	0.0
Other	\$m	(0.2)	(0.0)	0.0	0.0	0.0
Investing cash flow	\$m	(11.2)	(35.1)	(29.3)	(13.7)	(20.3)
Equity issuance	\$m	23.5	45.0	0.0	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)	(2.1)	(6.4)	(9.3)
Financing cash flow	\$m	17.1	47.1	(2.1)	(6.4)	(9.3)
Net cash flow	\$m	13.9	15.7	(11.4)	12.6	14.5
Free cash flow	\$m	3.4	(13.7)	10.7	19.0	23.8

Source: Petra Capital

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