

26 February 2021

Viva Leisure Limited (VVA)

BUY

Share Price: A\$3.00

Bulking for long term growth despite COVID

Target Price: A\$4.00

VVA reported a solid result in the context of material and highly disruptive operating conditions all gym operators faced in light of COVID restrictions and muted demand in the first five months of the 1H21. While we now factor in a slower than expected start to the year, particularly at the operating EBITDA line, due to increased COVID related labour increases, we see strong evidence of a ramp in demand based on improving momentum since late 2020. Longer term we see no material changes to our thesis, with clear signs of solid execution despite recent headwinds. With momentum improving rapidly. We reiterate our BUY recommendation based on our new A\$4.00 target price (was A\$4.60).

First half impacted by COVID

- Revenue increased 56.4% pcp to A\$35.9m despite COVID headwinds and low utilization.
- EBITDA fell by 0.5% pcp to A\$5.6m, driven by additional COVID related staffing costs (extra cleaning, COVID marshals) negatively impacting margins.
- Outlook for the second half looks strong with January reporting revenue of A\$7.5m, a 25% monthly improvement on the average for 1H21.

Taking advantage of post COVID environment

- Member numbers continue to grow, increasing by 9% during the half to 103k, driven by organic sign ups, ramp up of recently opened greenfield gyms and M&A.
- New site expansion accelerated; with VVA now expecting 115 locations open by June 2021 (was 110).
- Balance sheet remains strong with a A\$35.3m net cash position which given industry acquisition multiples of ~3.5x could generate an additional A\$10m EBITDA if deployed.

Forecasts and Valuation

- We expect a strong performance in 2H21, with EBITDA improving 52% sequentially to A\$8.5m.
- However, given COVID headwinds in 1H21 we have reduced our FY21F EBITDA substantially.
- We have reduced our FY22F EBITDA by 18%, reflecting increased conservatism, which pulls back our target price to A\$4.00 (from A\$4.60).
- 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 6.2x FY22F EBITDA.
- We reiterate our Buy recommendation.

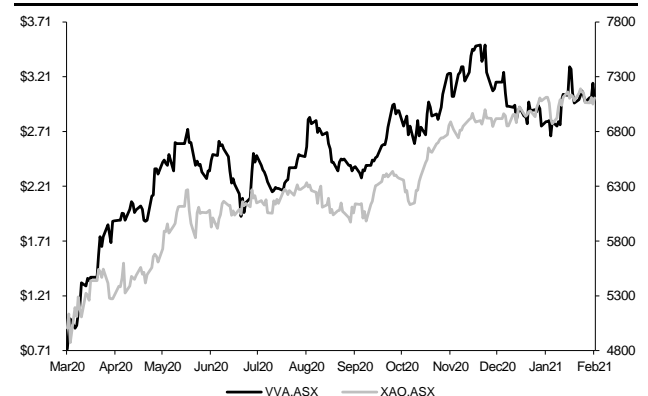
Company Data

Shares – ordinary (M)	82
Dilution (M)	3.1
Total (fully diluted) (M)	85.0
Market capitalisation (\$M)	245.9
12 month low/high (\$)	0.66/ 3.66
Average monthly turnover (\$M)	7.8
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)	54.2	na	99.6	16.8	10.6
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)	72.0	-18.0	-36.4	18.6	11.5
Enterprise Value (\$M)	239.4	223.8	225.3	224.4	211.6
EV / EBITDA (x)	33.3	36.9	15.9	6.2	4.0
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	3.3	4.7
Franking (%)	na	na	100.0	100.0	100.0

VVA – performance over one year



Disclosure and Disclaimer

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.

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Analysis

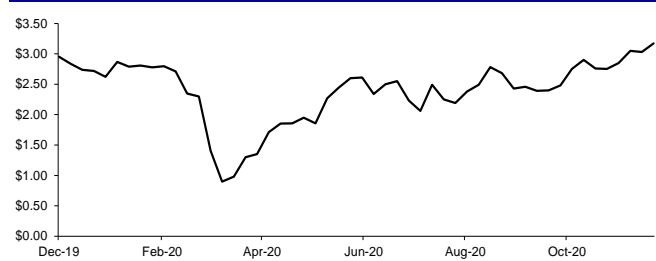
Viva Leisure Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	3.00
Target price (12-month)	\$	4.00
52 week low / high	\$	0.66 / 3.66
Market capitalisation	\$m	245.9
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	54.2	na	99.6	16.8	10.6
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	72.0	(18.0)	(36.4)	18.6	11.5
FCF yield	%	1.4	(5.6)	(2.7)	5.4	8.7
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%	3.3%	4.7%
Franking	%	na	na	100.0	100.0	100.0
Enterprise value	\$m	239.4	223.8	225.3	224.4	211.6
EV/EBITDA	x	33.3	36.9	15.9	6.2	4.0
EV/EBIT	x	49.2	111.9	44.0	9.6	5.9
Price to book (NAV)	x	9.5	3.9	2.6	2.3	2.0
Price to NTA	x	6.5	0.8	0.7	0.7	0.7

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

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