

Viva Leisure Limited

Hiiting its straps

Viva Leisure released the first of its detail heavy bimonthly trading updates, with this announcement including guidance for FY21. Whilst guidance at the EBITDA line was impacted by lingering Covid-19 related costs, it was pleasing to see that our FY21 revenue forecasts were in line with the guidance range. As part of the announcement, VVA disclosed total revenue for Apr-21 of \$8.1m. This was a positive surprise given the seasonal weakness attributable to school, university, and public holidays. We anticipate the monthly revenue growth to continue as VVA rolls-out new locations and its FY21 clubs mature. VVA has also reiterated its expectation of 10 corporate owned (either greenfield or franchise buy-back) locations for FY21, providing comfort that this has been progressing. Following the recent pullback, VVA's last close of \$1.93 offers substantial upside. Trading on an FY23 PE of 10.7x normalised earnings whilst growing FY23 EPS significantly, means we continue to maintain our BUY recommendation yet decrease our 12-month price target slightly to \$3.73ps off the back of the increased costs in FY21.

Hiit Republic lifts price points

VVA's trading update highlighted the substantial progress made with its Hiit Republic product following the doubling of locations since Apr-20. Priced at \$29.90 per week, it is ~2x the average Club Lime gym membership. As a result, this leads to VVA being able to achieve ~41.4% club margins off limited utilisation. In addition, management has highlighted that it is currently reviewing pricing levels with a view to implement an increase to ~\$35 per week. We see plenty of room for this and view it positively considering its main competitor is known to charge up to ~\$60-65 per week.

Changes to forecasts

We have made modest changes to our forecasts of the back of the guidance released by management. Additional operating costs in FY21 offset slight revenue improvements leading to a 7.7% reduction in FY21 EBITDA. We have elected to keep our forecasts largely stable in FY22 and FY23.

Key risks

Key risks are as follows: 1) roll-out and acquisition execution, 2) COVID-19 related shutdowns, and 3) Management of multiple stakeholders.

Year-end June (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (\$m)	33.1	40.9	82.8	117.8	156.5
EBITDA (\$m)	7.5	6.1	13.4	23.0	39.5
EBIT (\$m)	5.3	2.0	4.5	10.8	23.9
Reported NPAT (\$m)	3.2	(6.2)	(7.9)	(4.1)	4.6
Reported EPS (c)	6.0	(10.3)	(10.2)	(5.0)	5.7
Normalised NPAT (\$m)	3.3	1.4	2.1	5.9	14.6
Normalised EPS (c)	6.2	2.4	2.7	7.2	17.9
EPS Growth (%)	-	(61.8)	15.4	164.4	148.4
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	11.6	14.6	9.8	6.8	4.0
Normalised P/E (x)	31.2	81.6	70.7	26.7	10.8
Normalised ROE (%)	25.3	3.2	2.9	7.1	17.7

Source: OML, Iress, Viva Leisure Limited

Last Price

A\$1.93

Target Price

A\$3.73 (Previously A\$3.81)

Recommendation

Buy

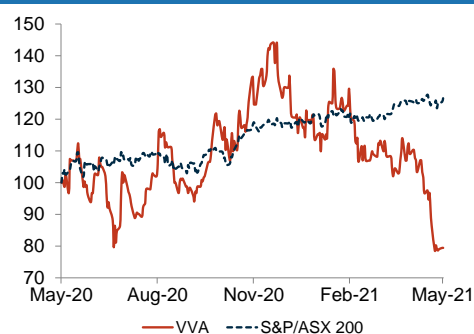
Risk

Higher

Leisure Facilities

ASX Code	VVA
52 Week Range (\$)	1.91 - 3.50
Market Cap (\$m)	138.0
Shares Outstanding (m)	71.5
Av Daily Turnover (\$m)	1.0
3 Month Total Return (%)	-35.7
12 Month Total Return (%)	-20.6
Benchmark 12 Month Return (%)	26.7
NTA FY21E (¢ per share)	52.3
Net Cash FY21E (\$m)	17.6

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY21E	FY22E
NPAT (C) (\$m)	-	-
NPAT (OM) (\$m)	2.1	5.9
EPS (C) (c)	-	-
EPS (OM) (c)	2.7	7.2

Source: OML, Iress, Viva Leisure Limited

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Ord Minnett acted as lead manager to the IPO in June 2019, placements in December 2019, June 2020, and November 2020.

Trading update

- VVA has released a trading and guidance update with a substantial amount of detail.
- VVA released an FY21 revenue guidance range of \$81-83m (OMLe \$81.7m) and EBITDA of \$13-13.5m (OMLe \$14.5m), with lingering costs associated with COVID-19.
- Other key detail in the pack included revenue of \$8.1m for Apr-21. We view this favourably as April is a seasonally weaker month due to school, university, and public holidays.
- Annualised, this implies VVA is tracking at \$97.2m. We anticipate further growth to be had on the seasonally weaker month of April.
- Total members of 121.6k is tracking well towards OMLe's FY21 forecast of 122k active members
- On Plus Fitness, VVA released some colour as to how it is tracking on the franchise-buyback front, reiterating the view that it aims for 10 Plus locations by FY21, with:
 - Two locations acquired, two in the settlement process, four with terms agreed and four under review
 - VVA has also opened two corporate greenfield locations.
- Hiit Republic's higher price point is proving to be a highly attractive business model offering margins of ~41.4% off the back of 36.6% utilisation.
- On an annualised basis, the product has grown to \$8.4m which equates to ~12% of OMLe's FY21 Corporate club revenue.

Figure 1: Hiit Republic key stats

HIIT REPUBLIC	MONTHLY RRR	DAILY RRR	MEMBERS	MEMBERS NMM	LOCATIONS
	\$0.7m	\$22,657	5,464	652	20
PCP % 15.7%	PCP % 15.7%	PCP % 13.5%	PCP N/C	PCP 19	
CLUB m2	UTILISATION	ARPM ⁺	CLUB MARGIN	CHURN	
9,964	36.60%	\$28.64	41.40%	5.6%	
PCP % 29.6%	PCP 41.7%	PCP \$28.13	PCP 40.6%	PCP 5.3%	

• Excluding impacts of AASB16
 + Excluding GST
 PCP period: April 2021 compared to December 2020
MARKET UPDATE (MAY 2021)

VIVA LEISURE

Source: VVA, OML

Changes to forecasts and assumptions

- We have made changes to our forecasts to account for management's guidance by factoring in additional costs during FY21. We have made only very minor changes to FY22 and FY23 off the back of this announcement.

Figure 2 – Changes to forecasts

	FY21 old	FY21 new	%Δ	FY22 old	FY22 new	%Δ	FY23 old	FY23 new	%Δ
Sales revenue	81.7	82.8	1.4%	117.8	117.8	0.0%	156.5	156.5	0.0%
Opex	-67.2	-69.4	-3.3%	-94.8	-94.8	0.0%	-116.9	-117.0	-0.1%
EBITDA	14.5	13.4	-7.7%	23.0	23.0	-0.1%	39.5	39.5	-0.2%
D&A	-8.9	-8.9	0.0%	-12.2	-12.2	0.4%	-15.6	-15.6	0.4%
Normalised EBIT	5.6	4.5	-19.8%	10.7	10.8	0.3%	23.9	23.9	0.0%
Net interest	-1.5	-1.5	-2.7%	-2.3	-2.4	-2.6%	-2.9	-3.0	-2.6%
PBT	4.2	3.0	-27.6%	8.4	8.4	-0.3%	21.0	20.9	-0.4%
Tax	-1.2	-0.9	27.6%	-2.5	-2.5	0.3%	-6.3	-6.3	0.4%
Normalised NPATA	2.9	2.1	-27.6%	5.9	5.9	-0.3%	14.7	14.6	-0.4%
Normalised EPS (NPATA)	3.8	2.7	-27.6%	7.2	7.2	-0.3%	18.0	17.9	-0.4%
Greenfield clubs	25.0	25.0	0.0%	40.0	40.0	0.0%	40.0	40.0	0.0%
Acquired clubs	7.0	7.0	0.0%	4.0	4.0	0.0%	4.0	4.0	0.0%
Franchises bought back	2.0	2.0	0.0%	2.0	2.0	0.0%	2.0	2.0	0.0%
Total clubs	113.0	113.0	0.0%	159.0	159.0	0.0%	205.0	205.0	0.0%
Members (owned clubs)	122,220	122,220	0.0%	161,157	161,157	0.0%	206,754	206,754	0.0%
EBITDA margin	17.8%	16.2%	-1.6%pts	19.5%	19.5%	0.0%pts	25.3%	25.2%	0.0%pts

Source: OMLe

Recommendation, valuation, and price target

Recommendation

- We maintain our Buy recommendation, seeing the business well placed to continue expanding its footprint in regional and suburban Australia through concerted club rollouts.
- We see substantial upside for VVA based on the last price and view monthly run rate expansion favourably.

Valuation

FY23 PE comp – because of the significant investment in greenfields being made in FY21 and FY22 and COVID-19 resulting in one-off costs and member delays, we continue to utilise FY23.

In deriving our 15x PE multiple for FY23, we reference domestic leisure businesses (FY23 PE average of 21.9x) and domestic health/discretionary comps (FY23 average PE 17.3x). VVA's growth profile is far more impressive than the comp set, with OMLe EPS growth in FY21, 22 & 23 at 15%, 164% & 148% compared with the average growth rate in health/discretionary comps at 39%, 8% and 12%.

Gym Group in the UK is trading at 32x FY23, while Planet Fitness in the US is 34.5x FY23.

Figure 3 – FY22 PE valuation

FY23 PE valuation

FY23 NPAT	14.6
PE multiple (x)	15.00
Equity value (\$m)	219.3
Equity value per share (\$)	2.69

Implied metrics	FY22	FY23
Implied FY22 EV/EBITDA (x)	8.3	4.9
Implied FY22 PE NPATA (x)	37.3	15.0

Source: OML

Price target

Price target – Based on the average of our DCF and PE valuations, rolled forward at our cost of equity, we derive a price target of \$3.73 per share, implying 93% upside to the last price of \$1.93.

Our \$3.73 target implies an FY23 PE of 20.8x (~5% discount to our Domestic leisure comp set)

Figure 4 – Price target derivation

Price target derivation

DCF valuation (\$ ps)	4.05
FY23 PE (\$ ps)	2.69
Average	3.37
Cost of equity (%)	10.8%
Rolled-forward valuations (\$ ps)	3.73
Less dividend (\$ ps)	0.00
One-year forward price target (\$ ps)	3.73

Implied metrics by target	FY22	FY23
EV/EBITDA (x)	12.3	7.1
PE NPATA (x)	51.7	20.8

Source: OML

Comparables

Domestic leisure											
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth		
			FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
EVT AU	EVENT Hospitality and Entertainment Ltd	2,116	-	45.1	22.5	87.0	13.7	11.3	-189%	n/a	100%
SLK AU	SeaLink Travel Group Ltd	2,147	27.9	24.2	21.4	14.3	12.2	11.1	55%	16%	13%
THL NZ	Tourism Holdings Ltd	353	-	-	13.9	13.2	8.2	4.6	-154%	n/a	n/a
ALG AU	Ardent Leisure Group Ltd	482	-	-	-	-	14.3	9.0	n/a	n/a	n/a
EXPAU	Experience Co Ltd	147	-	66.3	15.6	28.9	15.1	7.9	-133%	n/a	325%
ATL AU	Apollo Tourism & Leisure Ltd	85	-	151.7	9.3	26.8	7.5	5.5	-233%	n/a	1533%
Average (excl. EXP/ATL/THL)			na	34.6	21.9	50.6	13.4	10.4	-105%	na	64%
Median (excl. EXP/ATL/THL)			na	34.6	21.4	14.3	12.9	10.0	na	na	78%
VVA AU	Viva Leisure OMLe	157	70.5	26.7	10.7	10.6	6.2	3.6	15%	164%	148%
Domestic discretionary and health (sub \$2b mkt cap)											
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth		
			FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
AX1 AU	Accent Group Ltd	1,485	20.0	18.9	16.9	8.4	7.8	7.2	40%	6%	12%
LOV AU	Lovisa Holdings Ltd	1,484	55.0	32.8	24.8	16.7	13.4	10.8	-28%	68%	32%
IDX AU	Integral Diagnostics Ltd	959	23.2	23.1	21.4	13.0	12.2	11.4	25%	0%	8%
NCK AU	Nick Scali Ltd	874	11.1	15.8	15.3	7.8	10.2	10.1	88%	-30%	3%
CCX AU	City Chic Collective Ltd	1,078	45.0	31.5	26.2	25.2	18.7	16.2	23%	43%	20%
API AU	Australian Pharmaceutical Industries Ltd	571	14.0	12.1	11.4	5.6	5.2	4.7	-23%	16%	6%
BBN AU	Baby Bunting Group Ltd	773	29.5	25.3	21.9	16.1	14.2	12.6	83%	16%	16%
ADH AU	Adairs Ltd	746	10.3	12.3	11.4	6.1	6.9	6.5	146%	-17%	8%
RDC AU	Redcape Hotel Group	580	12.4	12.1	11.5	19.7	18.7	17.6	27%	2%	5%
VRT AU	Virtus Health Ltd	491	13.9	15.8	12.0	8.4	8.8	8.6	24%	-12%	5%
BLX AU	Beacon Lighting Group Ltd	431	11.6	16.4	16.4	6.4	7.5	7.4	126%	-29%	0%
PSQ AU	Pacific Smiles Group Ltd	399	25.5	27.2	22.7	13.4	13.1	10.9	61%	-6%	20%
PFP AU	Propel Funeral Partners Ltd	334	21.4	19.2	18.3	12.2	11.5	10.8	24%	12%	5%
MVF AU	Monash IVF Group Ltd	335	14.6	15.1	14.3	8.0	8.0	7.5	-29%	-3%	5%
CAJ AU	Capitol Health Ltd	370	24.0	24.0	20.0	9.6	10.0	9.2	25%	0%	20%
TRS AU	Reject Shop Ltd/The	235	27.6	15.9	11.7	11.5	8.5	7.0	n/a	73%	36%
ONT AU	1300SMILES Ltd	166	18.0	18.5	18.0	9.2	9.6	9.5	14%	-3%	3%
Average			22.2	19.8	17.3	11.6	10.8	9.9	39%	8%	12%
Median			20.0	18.5	16.9	9.6	10.0	9.5	25%	0%	8%
VVA AU	Viva Leisure OMLe	157	70.5	26.7	10.7	10.6	6.2	3.6	15%	164%	148%
Global fitness centres											
Code	Company	Mkt Cap AUD	PE			EV/EBITDA			EPS Growth		
			FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
PLNT US	Planet Fitness Inc	8,755	81.7	44.6	34.5	34.8	24.8	21.4	-39%	83%	29%
BFIT NA	Basic-Fit NV	3,945	-	64.6	28.2	27.4	13.6	9.6	-279%	n/a	129%
8462 TT	Power Wind Health Industry Inc	470	-	-	-	-	-	-	n/a	n	na
TVTY US	Tivity Health Inc	1,639	17.0	15.9	15.1	10.8	10.2	9.7	-30%	7%	na
GYMLN	Gym Group PLC/The	784	-	161.9	32.0	32.7	10.9	7.9	-322%	n/a	na
SPORTS MM	Grupo Sports World SAB de CV	30	-	-	-	99.7	7.3	-	n/a	na	na
ATIC SS	Actic Group AB	46	39.0	9.0	6.3	5.6	4.9	4.6	-47%	na	na
Average			45.9	59.2	23.2	35.2	12.0	10.6	-144%	45%	79%
Median			39.0	44.6	28.2	30.1	10.6	9.6	-47%	45%	79%
VVA AU	Viva Leisure OMLe	157	70.5	26.7	10.7	10.6	6.2	3.6	15%	164%	148%

Source: OML and Bloomberg *prices as of 25 May 2021

Viva Leisure Limited

PROFIT & LOSS (A\$m)	2019A	2020A	2021E	2022E	2023E
Revenue	33.1	40.9	82.8	117.8	156.5
Operating costs	(25.6)	(34.8)	(69.4)	(94.8)	(117.0)
Operating EBITDA	7.5	6.1	13.4	23.0	39.5
D&A	(2.1)	(4.1)	(8.9)	(12.2)	(15.6)
EBIT	5.3	2.0	4.5	10.8	23.9
Net interest	(0.7)	(0.8)	(1.5)	(2.4)	(3.0)
Pre-tax profit	4.7	1.2	3.0	8.4	20.9
Net tax (expense) / benefit	(1.4)	0.2	(0.9)	(2.5)	(6.3)
Significant items/Adj.	(0.1)	(7.7)	(10.0)	(10.0)	(10.0)
Normalised NPAT	3.3	1.4	2.1	5.9	14.6
Reported NPAT	3.2	(6.2)	(7.9)	(4.1)	4.6
Normalised dil. EPS (cps)	6.2	2.4	2.7	7.2	17.9
Reported EPS (cps)	6.0	(10.3)	(10.2)	(5.0)	5.7
Effective tax rate (%)	30.0	(15.3)	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	52.6	60.4	77.3	81.5	81.5

CASH FLOW (A\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA incl. adjustments	7.5	6.1	13.4	23.0	39.5
Change in working capital	0.9	7.0	(2.9)	(0.8)	(0.4)
Net Interest (paid)/received	(0.6)	(7.9)	(1.5)	(2.4)	(3.0)
Income tax paid	(0.5)	(1.6)	(0.9)	(2.5)	(6.3)
Other operating items	-	-	-	-	-
Operating Cash Flow	7.3	3.6	8.1	17.3	29.8
Capex	(3.9)	(17.9)	(11.9)	(18.7)	(19.5)
Acquisitions	(7.1)	(17.7)	(23.4)	(5.6)	(3.8)
Other investing items	(0.3)	-	-	-	-
Investing Cash Flow	(11.2)	(35.1)	(35.2)	(24.4)	(23.3)
Inc/(Dec) in equity	22.5	43.2	28.9	-	-
Inc/(Dec) in borrowings	(3.5)	5.8	5.0	10.0	(5.0)
Dividends paid	-	-	-	-	-
Other financing items	(2.0)	(1.8)	(6.4)	(8.6)	(10.9)
Financing Cash Flow	17.1	47.1	27.5	1.4	(15.9)
FX adjustment	0.6	-	-	-	-
Net Inc/(Dec) in Cash	13.2	15.7	0.5	(5.7)	(9.4)

BALANCE SHEET (A\$m)	2019A	2020A	2021E	2022E	2023E
Cash	14.4	30.1	30.6	24.9	15.5
Receivables	0.2	2.7	5.8	9.4	12.5
Inventory	-	-	-	-	-
Other current assets	0.4	3.0	3.0	3.0	3.0
PP & E	19.2	28.6	42.7	64.6	86.0
Intangibles	6.6	20.5	43.9	49.5	53.4
Other non-current assets	3.5	234.6	234.6	234.6	234.6
Total Assets	44.3	319.5	360.5	386.0	405.0
Short term debt	2.3	16.1	22.9	35.5	32.9
Payables	2.5	5.1	5.4	8.2	11.0
Other current liabilities	2.5	2.5	2.5	2.5	2.5
Long term debt	5.7	174.5	177.4	181.6	185.7
Other non-current liabilities	4.1	57.3	67.3	77.3	87.3
Total Liabilities	18.5	256.2	276.1	305.8	320.1
Total Equity	25.8	63.3	84.4	80.2	84.9
Net debt (cash)	(14.4)	(22.1)	(17.6)	(1.9)	2.4

Buy

DIVISIONS	2019A	2020A	2021E	2022E	2023E
KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	37.1	23.6	102.6	42.2	32.9
EBITDA growth	79.1	(18.9)	120.6	71.5	71.8
EBIT growth	102.1	(62.5)	125.4	138.8	121.9
Normalised EPS growth	-	(61.8)	15.4	164.4	148.4
EBITDA margin	22.6	14.8	16.2	19.5	25.2
OCF / EBITDA	112.4	215.5	78.7	96.7	99.0
EBIT margin	16.1	4.9	5.4	9.1	15.3
Return on assets	13.4	1.3	0.9	2.0	4.2
Return on equity	25.3	3.2	2.9	7.1	17.7

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	32.2	-	-	-	34.1
Normalised P/E	31.2	81.6	70.7	26.7	10.8
Price To Free Cash Flow	28.3	-	-	-	15.2
Price To NTA	5.3	2.6	3.7	5.1	5.0
EV / EBITDA	11.6	14.6	9.8	6.8	4.0
EV / EBIT	16.3	44.3	29.2	14.4	6.7

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	(126.5)	(53.7)	(26.4)	(2.4)	2.8
Net Debt / EBITDA (%)	(192.3)	(364.3)	(131.4)	(8.3)	6.2
EBIT Interest Cover (x)	7.8	2.6	3.0	4.6	8.0
EBITDA Interest Cover (x)	11.0	8.0	9.0	9.7	13.2

SUBSTANTIAL HOLDERS	m	%
Konstantinou Family	21.7	30.3%
BAEP	12.0	16.8%
WAM	5.3	7.5%

VALUATION	
Cost of Equity (%)	10.8
Cost of debt (after tax) (%)	7.3
D / EV (%)	15.0
WACC (%)	9.9

Forecast cash flow (\$m)	20.1
Terminal value (\$m)	282.1
Franking credit value (\$m)	-
Enterprise Value (\$m)	329.8
Less net debt / add net cash & investments (\$m)	(27.7)
Equity NPV (\$m)	302.2
Equity NPV Per Share (\$)	4.05

Multiples valuation method	FY23 PE
Multiples	15.0
Multiples valuation	2.69

Target Price Method	Rolled fwd DCF and PE
Target Price (\$)	3.73
Valuation disc. / (prem.) to share price (%)	93.3

Institutional Research

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Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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