

30 November 2020

Viva Leisure Limited (VVA)

BUY

Share Price: A\$3.03

Bulking its muscles for M&A; raises A\$30m for growth

Target Price:

A\$4.60

We update our numbers following VVA's A\$30m capital raising to help fund further acquisitions and accelerated greenfield expansion. VVA has navigated a difficult trading period extremely well, with operating momentum now clearly stronger than when the pandemic started. With a still highly fragmented group of operators, VVA is fast consolidating the leisure club space, leveraging its best in class tech and operational expertise to extend its network and improve its economies of scale. We reiterate our BUY recommendation on an unchanged A\$4.60 target price.

Key Points from Announcement

- VVA announced an A\$30m raising at A\$2.90 per share, at a 3.9% discount to 10 day VWAP via a placement to professional and sophisticated investors.
- Together with an expanded debt facility, funds raised will help support M&A activity and accelerated roll out & of gyms to the higher margin owned & operated formats.
- Memberships at Viva branded gyms hit 103k in November, increasing from the 100k reported in October. With viva's VIC members now off suspended memberships, monthly revenues will have increased again vs. the reported A\$6.7m October run-rate.

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 incorporate the equity raise and assume A\$10m of the capital is used for acquisitions by FY22, increasing EBITDA by ~A\$3m assuming 3.5x acquisition multiple.
- We also upgraded our underlying earnings assumptions at EBITDA line by 5% to 4% in FY21 & FY22 (A\$41.9m ex acq; was A\$40.4) reflecting monthly revenue ramp & better utilisation, driving higher margin sales. FY22 EPS rises 2% to 23.8cps.
- FY22 PER of ~13x is highly attractive relative to 2yr EPS CAGR to FY23 of >75% and 19x peer average.
- Our 50/50 P/E (A\$4.52) & DCF (A\$4.64) target price remains at A\$4.60 despite a rise in peer multiples from 18 to 19x. We reiterate our Buy recommendation.

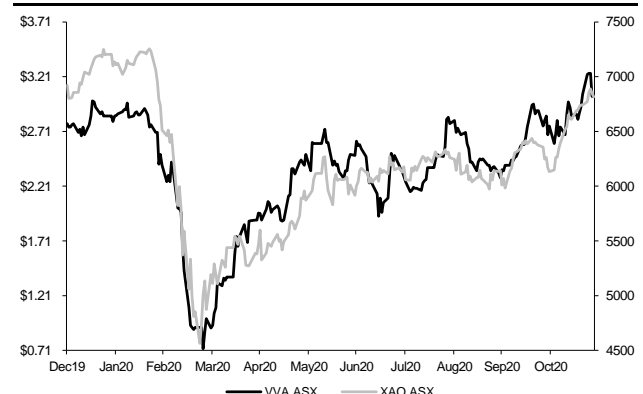
Company Data

Shares – ordinary (M)	81.9
Dilution (M)	3.1
Total (fully diluted) (M)	84.9
Market capitalisation (\$M)	248.0
12 month low/high (\$)	0.65/ 3.31
Average monthly turnover (\$M)	9.4
GICS Industry	Hotels, Restaurants & Leisure

Financial Summary (fully diluted/normalised)

Year end Jun	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue (\$M)	33.1	40.9	94.0	141.3	172.2
Costs (\$M)	-25.9	-34.8	-70.3	-96.5	-115.5
EBITDA (\$M)	7.2	6.1	23.6	44.8	56.7
NPAT (\$M)	3.1	1.430	8.3	20.2	26.4
EPS (cps)	5.5	2.4	9.8	23.8	31.1
EPS Growth (%)	na	-57%	100%	100%	30%
PER (x)	54.7	na	31.0	12.7	9.8
Free Cashflow (\$M)	3.4	-13.7	-3.1	18.2	23.7
FCFPS (cps)	4.2	-16.7	-3.8	22.2	29.0
P/FCFPS (x)	72.6	-18.1	-79.7	13.7	10.5
Enterprise Value (\$M)	241.6	225.9	219.1	220.1	205.9
EV / EBITDA (x)	33.6	37.2	9.3	4.9	3.6
Payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Dividends (cps)	0.0	0.0	6.0	12.0	16.0
Yield (%)	0.0	0.0	2.0	4.0	5.3
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 will be received.

Nick Basile
+61 2 9239 9633

Analysis

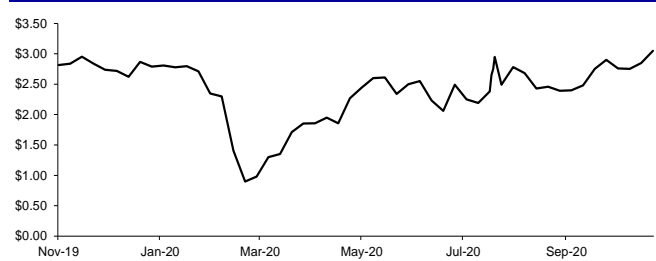
Viva Leisure Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	3.03
Target price (12-month)	\$	4.60
52 week low / high	\$	0.65 / 3.31
Market capitalisation	\$m	248.0
Shares on issue (basic)	no.	81.9
Options / rights	no.	3.1
Other equity	no.	0.0
Shares on issue (diluted)	no.	84.9

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	FY19A	FY20A	FY21F	FY22F	FY23F	
NPAT (reported)	\$m	2.2	1.4	8.3	20.2	26.4
NPATA (pro forma)	\$m	3.1	1.4	8.3	20.2	26.4
EPS (Reported, undiluted)	¢	4.1	2.5	10.7	24.7	32.2
EPS (NPATA PF, diluted)	¢	5.5	2.4	9.8	23.8	31.1
Growth	%	na	-57%	312%	144%	30%
PER normalised	x	54.7	na	31.0	12.7	9.8
Operating cash flow per share	¢	9.0	4.4	24.9	42.9	54.2
Free cash flow per share	¢	4.2	(16.7)	(3.8)	22.2	29.0
Price to free cash flow per share	x	72.6	(18.1)	(79.7)	13.7	10.5
FCF yield	%	1.4	(5.5)	(1.3)	7.3	9.6
Dividend	¢	0.0	0.0	6.0	12.0	16.0
Payout	%	0.0	0.0	50.0	50.0	50.0
Yield	%	0.0%	0.0%	2.0%	4.0%	5.3%
Franking	%	na	na	100.0	100.0	100.0
Enterprise value	\$m	241.6	225.9	219.1	220.1	205.9
EV/EBITDA	x	33.6	37.2	9.3	4.9	3.6
EV/EBIT	x	49.6	113.0	16.5	7.2	5.2
Price to book (NAV)	x	9.6	3.9	2.5	2.2	1.9
Price to NTA	x	6.6	0.8	0.7	0.7	0.6

KEY RATIOS

	FY19A	FY20A	FY21F	FY22F	FY23F	
EBITDA margin	%	21.8	14.8	25.2	31.7	32.9
EBIT margin	%	14.7	4.9	14.2	21.7	22.9
NPAT margin	%	9.3	3.5	8.8	14.3	15.3
ROE	%	11.9	2.3	8.3	18.0	20.4
ROA	%	6.9	0.4	2.3	5.4	6.6
Net debt / (cash) ex leases	\$m	(6.4)	(22.1)	(28.9)	(27.9)	(42.1)
Interest cover (EBIT / Net interest)	x	7.1	2.6	9.1	17.3	22.6
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	8.8	14.3	15.3
Asset Turnover	x	0.7	0.1	0.3	0.4	0.4
Return on Assets	%	6.9	0.4	2.3	5.4	6.6
Financial Leverage	x	1.7	5.0	3.6	3.4	3.1
Return on Equity	%	11.9	2.3	8.3	18.0	20.4

GROWTH PROFILE

	FY19A	FY20A	FY21F	FY22F	FY23F	
Revenue	%	na	23.6	129.9	50.3	21.8
EBITDA	%	na	(15.7)	289.6	89.4	26.5
EBIT	%	na	(58.9)	565.4	130.3	28.6
NPAT (pe AASB16)	%	na	(53.4)	na	143.9	30.5
EPS (NPATA PF, diluted)	%	na	(57.3)	na	143.9	30.5

PROFIT AND LOSS (P&L)

	FY19A	FY20A	FY21F	FY22F	FY23F	
Revenue	\$m	33.1	40.9	94.0	141.3	172.2
EBITDA	\$m	7.2	6.1	23.6	44.8	56.7
Depreciation & amortisation	\$m	(2.3)	(4.1)	(10.3)	(14.1)	(17.2)
EBIT	\$m	4.9	2.0	13.3	30.7	39.4
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	11.8	28.9	37.7
Tax expense	\$m	(1.1)	0.2	(3.6)	(8.7)	(11.3)
NPAT (pe AASB16)	\$m	3.1	1.4	8.3	20.2	26.4
Amortisation add-back	\$m	0.0	0.0	0.0	0.0	0.0
NPAT (pe AASB16)	\$m	3.1	1.4	8.3	20.2	26.4
Significant items	\$m	(0.9)	0.0	0.0	0.0	0.0
Reported NPAT	\$m	2.2	1.4	8.3	20.2	26.4

BALANCE SHEET

	FY19A	FY20A	FY21F	FY22F	FY23F	
Cash	\$m	14.4	30.1	36.9	35.9	50.1
Receivables	\$m	0.2	2.7	6.1	9.2	11.2
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	46.0	48.0	64.3
Prop, plant & equip	\$m	19.2	205.5	238.6	256.2	263.1
Intangibles	\$m	6.6	20.5	18.6	15.8	12.4
Other	\$m	3.6	57.7	57.7	57.7	57.7
Non current	\$m	29.3	283.8	314.9	329.8	333.2
Total assets	\$m	44.3	319.5	360.9	377.8	397.5
Accounts Payable	\$m	2.5	5.1	10.3	14.1	16.9
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	261.4	265.2	268.0
Shareholder's equity	\$m	25.8	63.3	99.5	112.6	129.5

CASH FLOW

	FY19A	FY20A	FY21F	FY22F	FY23F	
EBITDA	\$m	7.2	6.1	23.6	44.8	56.7
Change in working capital	\$m	0.0	0.1	1.8	0.8	0.8
Net interest	\$m	(0.6)	(0.8)	(1.5)	(1.8)	(1.7)
Tax paid	\$m	(0.5)	(1.6)	(3.6)	(8.7)	(11.3)
Other	\$m	1.2	(0.2)	0.0	0.0	0.0
Operating cash flow	\$m	7.3	3.6	20.4	35.1	44.4
Capex	\$m	(3.9)	(17.3)	(23.5)	(17.0)	(20.7)
Acquisitions	\$m	(7.1)	(17.7)	(18.0)	(12.0)	0.0
Other	\$m	(0.2)	(0.0)	0.0	0.0	0.0
Investing cash flow	\$m	(11.2)	(35.1)	(41.5)	(29.0)	(20.7)
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)	(2.1)	(7.2)	(9.5)
Financing cash flow	\$m	17.1	47.1	27.9	(7.2)	(9.5)
Net cash flow	\$m	13.9	15.7	6.8	(1.0)	14.2
Free cash flow	\$m	3.4	(13.7)	(3.1)	18.2	23.7

Source: Petra Capital

Bulking its muscles for M&A; raises A\$30m for growth

VVA have announced a A\$30m raising to fund further acquisitions for growth and accelerated roll-out of greenfield locations. Conservatively, we assume A\$10m of this capital is deployed by FY22 at a 3.5x acquisition multiple to drive an increase in EBITDA of A\$3m by FY22F. This compares favourably to management's expectations VVA can conclude a deal within 90 days for A\$10m.

Importantly, we also upgraded our organic EBITDA forecasts in FY22F to A\$41.9m (was A\$40.4m) given the faster than expected roll-out of greenfield locations, higher utilisation and monthly revenues, which together will drive more profitable margins by FY22.

As seen in Figure 1, we forecast A\$94m and A\$141m in revenue and A\$23.6m & A\$44.8m in EBITDA in FY21F & FY22F. We expect growth will be driven by the following four factors:

- 1) Viva branded gyms organic roll-out;
- 2) COVID recovery and run-rating of higher utilisation & earnings at end of CY20 than pre COVID;
- 3) Natural margin expansion due to economies of scale over time; and
- 4) Further M&A, as alluded to earlier.

Figure 1: Group P&L (A\$m)

Year to 30 June	Unit	FY19A	FY20A	FY21F	FY22F	FY23F
Sales Revenue						
Viva Leisure	A\$m	33.1	40.9	82.3	117.3	143.9
Australian Fitness Management	A\$m	n/a	n/a	11.7	15.2	19.5
New Acquisitions	A\$m	n/a	n/a	0.0	8.8	8.8
Total Revenue	A\$m	33.1	40.9	94.0	141.3	172.2
EBITDA						
Viva Leisure	A\$m	7.2	6.1	21.2	38.1	48.9
Australian Fitness Management	A\$m	n/a	n/a	2.5	3.8	4.9
New Acquisitions	A\$m	n/a	n/a	0.0	2.9	2.9
Total EBITDA	A\$m	7.2	6.1	23.6	44.8	56.7
Locations (Y/E)						
Viva Leisure	#	40	79	110	130	145
Australian Fitness Management	#	187	197	212	227	242
New Acquisitions	#	n/a	n/a	0	13	13
EBITDA Margin	%	21.8%	14.8%	25.2%	31.7%	32.9%

Source: Company data, Petra Capital

Valuation

Our unchanged A\$4.60 target price values VVA on a combination of P/E multiple (50%) and DCF (50%) methodologies, adopting a 19x FY22F P/E multiple, as shown in Figure 2.

Our P/E multiple of 19.0x is consistent with the median of care focused retail stocks 16.0x and data driven disruptors ~22x which are delivering EPS growth lower than VVA providing further support.

Figure 2: Our blended P/E & DCF based Target price is A\$4.60 per share

Valuation methodology	P/E	DCF	A\$ Target price
Price per share	4.52	4.64	4.60
Weighting	50%	50%	100%

Source: Petra Capital, Target price rounded to 1dp.

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 (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):	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	pdoherly@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:	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
Corporate (ECM):	Richard Amland	+61 (0)2 9239 9610	ramland@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@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
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

Disclosure

This document has been prepared in Australia by Petra Capital Pty Ltd which holds an Australian Financial Services License AFSL 317 944. Petra Capital Pty Ltd is an ASX Market Participant. Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may receive brokerage, commissions, fees or other benefits or advantages, hold securities in companies researched by Petra Capital Pty Ltd and may trade in these securities either as principal or agent. 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 will be received.

Disclaimer

The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. Persons relying on this information do so at their own risk. To the extent permitted by law, Petra Capital Pty Ltd disclaims all liability or responsibility for any direct or indirect loss or damage (including consequential loss or damage) caused by any error or omission within this report, or by persons relying on the contents of this report.

This report is published by Petra Capital Pty Ltd by way of general information or advice only. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice.

Ratings

Information regarding the scope and expertise of our research services, processes for selection for coverage, and the management of conflicts of interest can be found on Petra Capital's website at <http://www.petracapital.com.au/research-disclosures>.

Petra Capital uses the following ratings system and definitions: Buy - Forecast to outperform the Market by more than 5%; Hold - Forecast to perform up to 5% above or below the Market; Sell - Forecast to underperform the Market by more than 5%; Speculative Buy - Speculative Investment; Take Profits - Recommend taking short term profits in a stock we remain fundamentally positive on a medium term view; Accept Offer - For a company under takeover where we see the offer as a fair price with low risk of a competing offer; No Rating - No rating at this time. Market performance is relative to the S&P/ASX Small Ordinaries Index which we assume generates a neutral return on a 12 month basis.

US Investors

This material is intended for use in the US only by major US Institutional Investors, as that term is defined by the SEC Rule 15a-6. Transactions with US Institutional Investors and major US Institutional Investors, as those terms are defined by SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC, ("Global Alliance"), a SEC-registered broker-dealer and FINRA member (web: www.globalalliancesecurities.com) in accordance with the agreement between Global Alliance and Petra Capital Pty Ltd. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer's best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Ltd or Global Alliance and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.