

4 February 2021

Viva Leisure Limited (VVA)

BUY

Share Price: A\$2.80

Viva showing signs of early gains in 2021

Target Price: A\$4.60

VVA continues to demonstrate signs of solid gains in January, a seasonally important sign-up month for gyms in Australia, with timing in the middle of summer and the start of many New Years' resolution inspired fitness regimes. Critically, VVA's average visitation levels across its entire gym portfolio were up 7% in January vs the month of November, implying ~3.5% growth per month. Further, our analysis of Google Trends highlights that VVA's key brands, Club Lime & Hiit Republic continue to take greater share of mind vs its major competitors. With the stock selling off c.20% since its 12 month highs' in December, there is now a significant opportunity to capture even greater gains whilst business fundamentals strengthen further. With the stock showing ~65% upside to our A\$4.60 target price, we reiterate our Buy recommendation.

Key Points from our research

- VVA has continued to see increased visitation levels across its entire gym portfolio over January, with 22.0k avg visits per day, up 7% vs the 20.5k reported for the month of November, driving higher monthly revenues.
- Further, analysis of Google Trends highlights that VVA's key brands, Club Lime & Hiit Republic continue to take greater share of mind, with the level of search interest increasing relative to Fitness First & F45, largest gym brands by locations & members.

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 estimate robust group revenue & EBITDA growth underpinned by recent improvements in monthly metrics and the rollout of high margin Hiit Republic.
- We expect an extremely strong 3yr Revenue, EBITDA & EPS CAGR to FY23F of 61%, 111% and 136%.
- FY22 PER of ~12x is highly attractive relative to 2yr EPS CAGR to FY23 of >75% and ~19x peer average.
- Our 50/50 P/E (A\$4.52 on 19.0x FY22F) & DCF (A\$4.64) target price remains at A\$4.60. We reiterate our Buy recommendation.

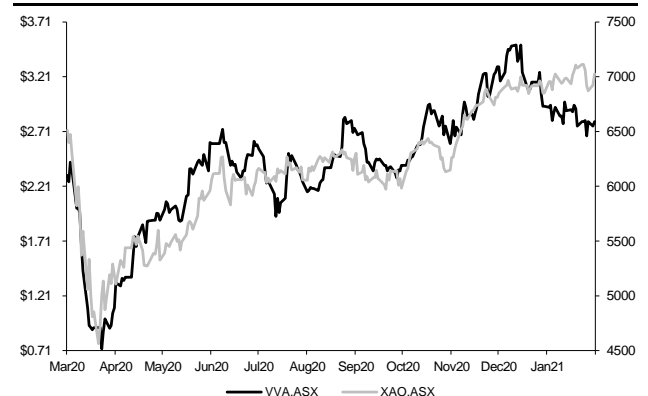
Company Data

Shares – ordinary (M)	82.0
Dilution (M)	3.1
Total (fully diluted) (M)	84.9
Market capitalisation (\$M)	229.5
12 month low/high (\$)	0.66/ 3.66
Average monthly turnover (\$M)	7.9
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 (¢ps)	5.5	2.4	9.8	23.8	31.1
EPS Growth (%)	na	-57%	312%	144%	30%
PER (x)	50.6	na	28.7	11.8	9.0
Free Cashflow (\$M)	3.4	-13.7	-3.1	18.2	23.7
FCFPS (¢ps)	4.2	-16.7	-3.8	22.2	29.0
P/FCFPS (x)	67.1	-16.8	-73.6	12.6	9.7
Enterprise Value (\$M)	222.8	207.1	200.3	201.3	187.1
EV / EBITDA (x)	30.9	34.1	8.5	4.5	3.3
Payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Dividends (¢ps)	0.0	0.0	6.0	12.0	16.0
Yield (%)	0.0	0.0	2.1	4.3	5.7
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.

Analysis

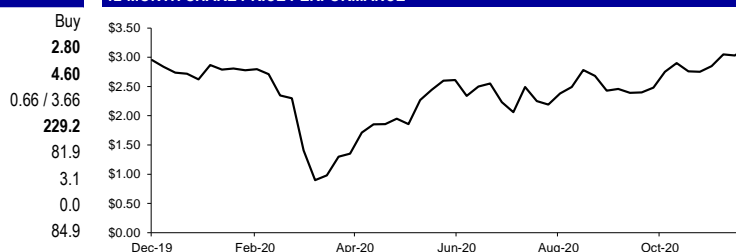
Viva Leisure Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	2.80
Target price (12-month)	\$	4.60
52 week low / high	\$	0.66 / 3.66
Market capitalisation	\$m	229.2
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 50.6	na	28.7	11.8	9.0
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 67.1	(16.8)	(73.6)	12.6	9.7
FCF yield	% 1.5	(6.0)	(1.4)	7.9	10.3
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%	2.1%	4.3%	5.7%
Franking	% na	na	100.0	100.0	100.0
Enterprise value	\$m 222.8	207.1	200.3	201.3	187.1
EV/EBITDA	x 30.9	34.1	8.5	4.5	3.3
EV/EBIT	x 45.7	103.5	15.0	6.6	4.7
Price to book (NAV)	x 8.9	3.6	2.3	2.0	1.8
Price to NTA	x 6.1	0.8	0.7	0.6	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

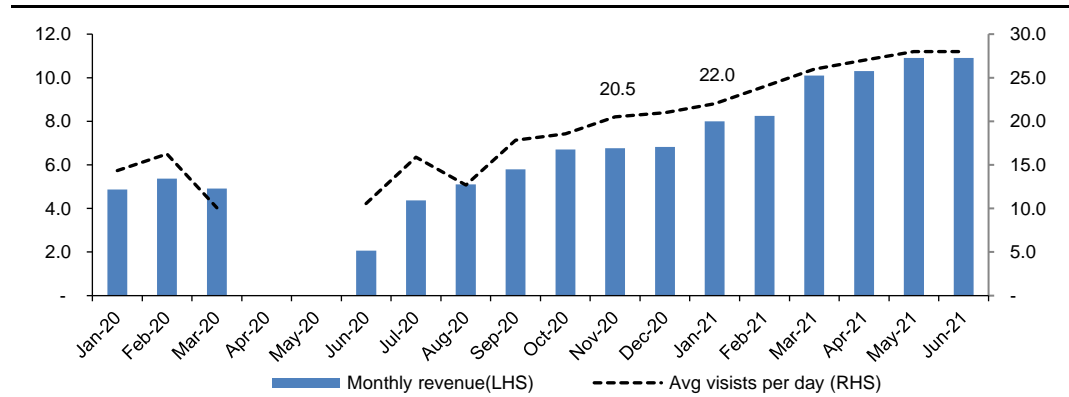
Source: Petra Capital

Sun's out, guns out; Viva showing signs of early gains in 2021

VVA continues to demonstrate solid business fundamentals in the beginning of 2021, with average daily visits per month and online search interest in their brands at record levels, and taking share.

We note that average daily visits per month has increased to 22k in the month of January, increasing by +7% vs the last reported figure in November of 20.5k, as seen in Figure 1. Critically, visitation increases tend to mirror growth in members, which itself drives monthly revenues, which appear on track to hit our FY21F forecast for A\$94m, benefitting from a number of organic and inorganic drivers.

Figure 1: Monthly revenue (A\$m; LHS) & Avg daily visits per month (k; RHS)



Source: Company data, Petra Capital

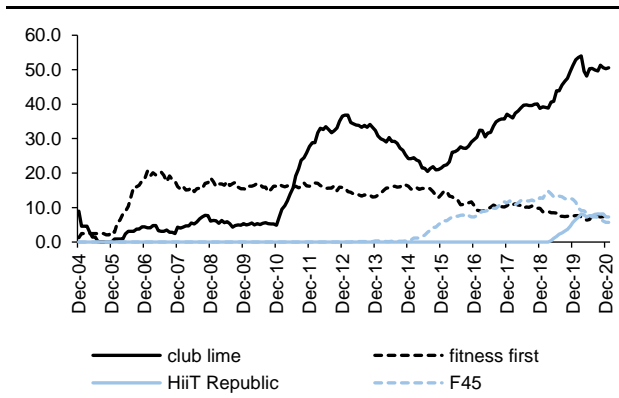
Google trends shows VVA's market penetration continues to strengthen

Our analysis of Google Trends highlights that VVA's key brands, Club Lime (Big Box Gym & studio format) and Hiit Republic (small format, studio style) continue to take greater share of mind. The level of search interest is increasing relative to Fitness First, which is Club Lime's main competitor in the big box format gym and F45, which is Hiit Republic's main competitor in studio style gyms.

As seen in Figure 2, VVA's Club Lime has extended its market leading position in its home region of ACT in the last 12 months, opening up the largest relative gap between itself and Fitness First since it began operations, as measured by total volume of search for respective brand names. Further, Hiit Republic, which only launched in 2020, has begun to close the gap to F45 in that market of late.

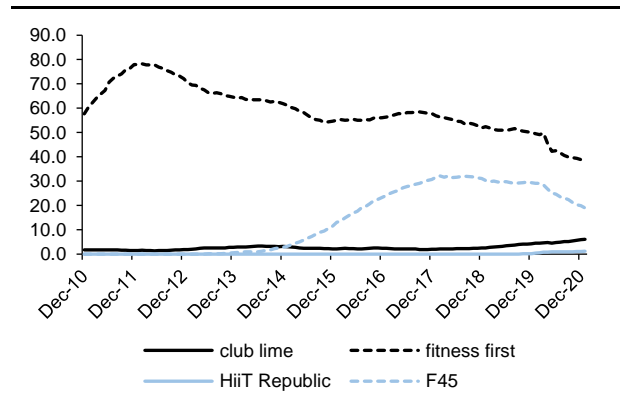
In NSW, where VVA has only recently begun the roll-out of its gym offerings, the Club Lime brand continues to grow in relevance with consumers, while competitors begin to taper, Figure 3. Fitness First and F45 are the largest gym brands by locations & members with the greatest network effects at the corporate brand level, further highlighting the significance of VVA's brands taking share.

Figure 2: Search interest: by gym brand (ACT)



Source: Google trends

Figure 3: Search interest: by gym brand (NSW)



Source: Google Trends

Our Forecasts & Valuation

We expect the rollout of new gyms across the east coast and new higher margin gym formats, such as Hiit Republic to be a significant driver of top and bottom line earnings growth over the forecast period. As VVA expands progressively into the east coast market via organic and inorganic growth, we expect it to take market share given the tech enabled operating model.

As seen in Figure 4, in the near term, we forecast A\$94m and A\$141m in revenue and A\$23.6m & A\$44.8m in EBITDA in FY21F & FY22F, with growth driven by the following four factors:

- 1) Viva branded gyms organic roll-out (including Hiit Republic);
- 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.

Figure 4: 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 5.

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 5: Group P&L (A\$m)

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.

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