

5 February 2021

## Viva Leisure Limited (VVA)

**BUY**

**Share Price: A\$3.00**

**Solid execution continues**

**Target Price: A\$4.60**

Viva announced solid membership growth has continued, increasing +15% vs October taking total members to 115k by February. We upgrade our FY21 earnings for the early completion of Pinnacle health, increasing our revenue and EBITDA by ~1%. We make no changes to our FY22 estimates, with the acquisition of Pinnacle in line with our prior forecast for ~A\$10m to be spent on acquisitions at ~3.0 to 3.5x EBITDA multiples. Management continue to execute well with the recent update yet another example. With the stock showing ~50% upside to our A\$4.60 target price, we reiterate our Buy recommendation.

### Key Points from Announcement

- VVA announced the earlier than expected completion for the acquisition of pinnacle health clubs, a portfolio 6 Victorian based clubs, bringing with it ~6,500 members.
- The Pinnacle acquisition was announced in January 2020 for total VVA cash consideration of ~A\$6m, having generated EBITDA of A\$1.75m in FY19 from 5 clubs.
- As highlighted in our recent research, VVA branded gym membership momentum continues to build. VVA has reported membership numbers increasing to 115k (+15% vs October, +12% vs November).
- VVA has now reached 101 open locations and remains on track to hit its previously flagged target of 110 open locations by June 2021. Further, it is set to open its flagship Club Lime Titanium branded gym in Pymont on November the 8<sup>th</sup>, taking the total to 102.

### 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.

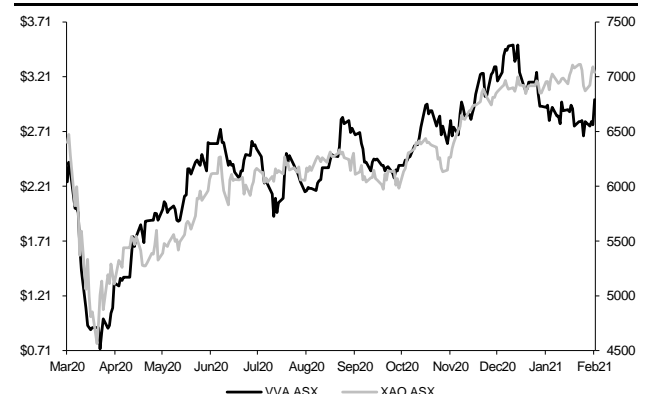
### Company Data

Shares – ordinary (M)	82.0
Dilution (M)	3.1
Total (fully diluted) (M)	85.0
Market capitalisation (\$M)	227
12 month low/high (\$)	0.66/ 3.66
Average monthly turnover (\$M)	8.4
GICS Industry	Hotels, Restaurants & Leisure

### Financial Summary (fully diluted/normalised)

Year end Jun	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue (\$M)	33.1	40.9	95.7	140.6	172.2
Costs (\$M)	-25.9	-34.8	-71.7	-96.0	-115.5
EBITDA (\$M)	7.2	6.1	23.9	44.5	56.7
NPAT (\$M)	3.1	1.430	8.4	20.1	26.4
EPS (¢ps)	5.5	2.4	9.9	23.7	31.1
EPS Growth (%)	na	-57%	316%	140%	31%
PER (x)	54.2	na	30.4	12.7	9.7
Free Cashflow (\$M)	3.4	-13.7	-3.2	17.9	23.7
FCFPS (¢ps)	4.2	-16.7	-3.9	21.9	29.0
P/FCFPS (x)	71.9	-18.0	-77.3	13.7	10.3
Enterprise Value (\$M)	239.1	223.5	222.8	219.0	204.8
EV / EBITDA (x)	33.2	36.8	9.3	4.9	3.6
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	2.0	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 was received.

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## Analysis

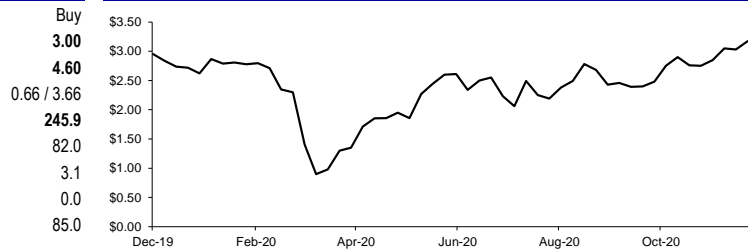
### Viva Leisure Ltd

Year end 30 June

#### MARKET DATA

Recommendation		Buy
Price	\$	3.00
Target price (12-month)	\$	4.60
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	8.4	20.1	26.4
NPATA (pro forma)	\$m 3.1	1.4	8.4	20.1	26.4
EPS (Reported, undiluted)	¢ 4.1	2.5	10.8	24.5	32.2
EPS (NPATA PF, diluted)	¢ 5.5	2.4	9.8	23.6	31.0
Growth	% na	-57%	316%	140%	31%
PER normalised	x 54.2	na	30.5	12.7	9.7
Operating cash flow per share	¢ 9.0	4.4	25.3	42.5	54.2
Free cash flow per share	¢ 4.2	(16.7)	(3.9)	21.9	29.0
Price to free cash flow per share	x 72.0	(18.0)	(77.4)	13.7	10.4
FCF yield	% 1.4	(5.6)	(1.3)	7.3	9.7
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 239.4	223.8	223.1	219.3	205.1
EV/EBITDA	x 33.3	36.9	9.3	4.9	3.6
EV/EBIT	x 49.2	111.9	16.6	7.2	5.2
Price to book (NAV)	x 9.5	3.9	2.5	2.2	1.9
Price to NTA	x 6.5	0.8	0.7	0.7	0.6

#### KEY RATIOS

	FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA margin	% 21.8	14.8	25.0	31.7	32.9
EBIT margin	% 14.7	4.9	14.0	21.7	22.9
NPAT margin	% 9.3	3.5	8.7	14.3	15.3
ROE	% 11.9	2.3	8.4	17.9	20.4
ROA	% 6.9	0.4	2.3	5.3	6.6
Net debt / (cash) ex leases	\$m (6.4)	(22.1)	(22.7)	(26.5)	(40.8)
Interest cover (EBIT / Net interest)	x 7.1	2.6	9.2	17.2	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	8.7	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	5.3	6.6
Financial Leverage	x 1.7	5.0	3.6	3.4	3.1
Return on Equity	% 11.9	2.3	8.4	17.9	20.4

#### GROWTH PROFILE

	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	% na	23.6	134.0	46.9	22.5
EBITDA	% na	(15.7)	294.5	86.0	27.2
EBIT	% na	(58.9)	571.1	127.2	29.3
NPAT (pe AASB16)	% na	(53.4)	na	140.1	31.2
EPS (NPATA PF, diluted)	% na	(57.3)	na	140.1	31.2

#### PROFIT AND LOSS (P&L)

	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	\$m 33.1	40.9	95.7	140.6	172.2
EBITDA	\$m 7.2	6.1	23.9	44.5	56.7
Depreciation & amortisation	\$m (2.3)	(4.1)	(10.5)	(14.1)	(17.2)
EBIT	\$m 4.9	2.0	13.4	30.5	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	12.0	28.7	37.7
Tax expense	\$m (1.1)	0.2	(3.6)	(8.6)	(11.3)
NPAT (pe AASB16)	\$m 3.1	1.4	8.4	20.1	26.4
Amortisation add-back	\$m 0.0	0.0	0.0	0.0	0.0
NPAT (pe AASB16)	\$m 3.1	1.4	8.4	20.1	26.4
Significant items	\$m (0.9)	0.0	0.0	0.0	0.0
Reported NPAT	\$m 2.2	1.4	8.4	20.1	26.4

#### BALANCE SHEET

	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	\$m 14.4	30.1	30.7	34.5	48.8
Receivables	\$m 0.2	2.7	6.2	9.1	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	39.9	46.6	62.9
Prop, plant & equip	\$m 19.2	205.5	245.0	257.6	264.5
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	321.3	331.1	334.6
Total assets	\$m 44.3	319.5	361.2	377.7	397.5
Accounts Payable	\$m 2.5	5.1	10.5	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	261.6	265.2	268.0
Shareholder's equity	\$m 25.8	63.3	99.6	112.6	129.4

#### CASH FLOW

	FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA	\$m 7.2	6.1	23.9	44.5	56.7
Change in working capital	\$m 0.0	0.1	1.8	0.6	0.8
Net interest	\$m (0.6)	(0.8)	(1.5)	(1.8)	(1.7)
Tax paid	\$m (0.5)	(1.6)	(3.6)	(8.6)	(11.3)
Other	\$m 1.2	(0.2)	0.0	0.0	0.0
Operating cash flow	\$m 7.3	3.6	20.7	34.8	44.4
Capex	\$m (3.9)	(17.3)	(23.9)	(16.9)	(20.7)
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)	(48.0)	(23.9)	(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)	(7.1)	(9.5)
Financing cash flow	\$m 17.1	47.1	27.9	(7.1)	(9.5)
Net cash flow	\$m 13.9	15.7	0.6	3.8	14.2
Free cash flow	\$m 3.4	(13.7)	(3.2)	17.9	23.7

Source: Petra Capital

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