

8 December 2020

Viva Leisure Limited (VVA)

BUY

Share Price: A\$3.25

Unveiling a Hiit new growth driver in the east coast

Target Price:

A\$4.60

We expect the rollout of Hiit Republic studios to underpin VVA's robust organic growth trajectory over the next three years, with Hiit growing at a 200%+ 3 year EBITDA CAGR and contributing 30% of group EBITDA by FY23F. With price leadership over its closest competitor, F45, and with sizeable growth plans for its relatively small, ~360sqm avg. studio footprint, we expect Hiit republic to help VVA rapidly in-fill Australia's east coast market. We reiterate our BUY recommendation and A\$4.60 target price.

Key Points from Announcement

- VVA's slated plans are to open 11 net new Hiit Republic branded studios in FY21, taking the total to 24 of the 110 VVA branded health club portfolio, underpinning our estimates for robust top and bottom line momentum.
- VVA's Hiit (high intensity interval training) studios operate at EBITDA margins of ~50%, or 2x the group average for the rest of Viva's core health club offering after 6 months of operational ramp up.
- Weekly membership fees are between ~A\$30-40 for single or multi-club and ~2.5x the avg. weekly fee of the VVA portfolio helping to drive stronger unit economics.
- Significantly, Hiit memberships are priced at a discount to its main competitor, F45 (functional 45 minute), which operate studios that typically charge between \$45 (on promotions) up to \$70 for weekly membership.

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 ~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 on 19.0x FY22F) & DCF (A\$4.64) target price remains at A\$4.60. With ~40% upside showing, we reiterate our Buy recommendation.

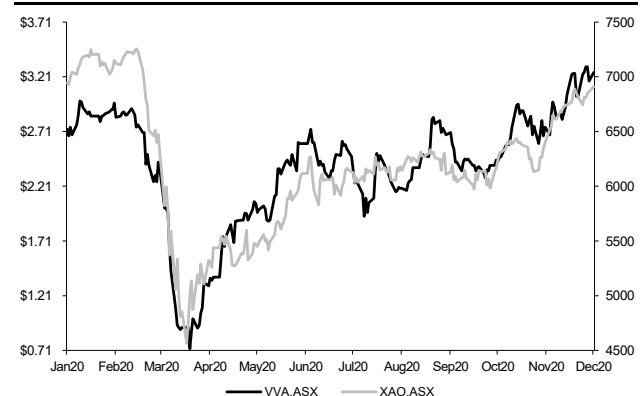
Company Data

Shares – ordinary (M)	81.9
Dilution (M)	3.1
Total (fully diluted) (M)	84.9
Market capitalisation (\$M)	266.0
12 month low/high (\$)	0.70/ 3.30
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	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%	100%	100%	30%
PER (x)	58.7	na	33.3	13.7	10.5
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)	77.9	-19.5	-85.5	14.7	11.2
Enterprise Value (\$M)	259.6	243.9	237.1	238.1	223.9
EV / EBITDA (x)	36.1	40.2	10.0	5.3	4.0
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	1.8	3.7	4.9
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

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Analysis

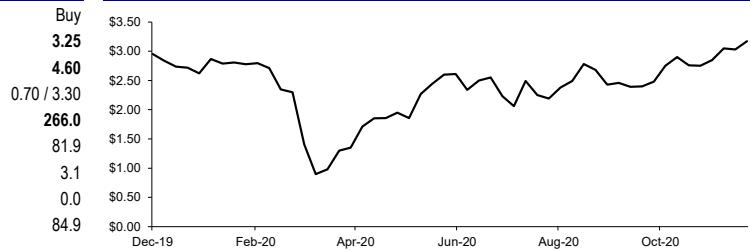
Viva Leisure Ltd

Year end 30 June

MARKET DATA

Recommendation		Buy
Price	\$	3.25
Target price (12-month)	\$	4.60
52 week low / high	\$	0.70 / 3.30
Market capitalisation	\$m	266.0
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	58.7	na	33.3	13.7	10.5
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	77.9	(19.5)	(85.5)	14.7	11.2
FCF yield	%	1.3	(5.1)	(1.2)	6.8	8.9
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%	1.8%	3.7%	4.9%
Franking	%	na	na	100.0	100.0	100.0
Enterprise value	\$m	259.6	243.9	237.1	238.1	223.9
EV/EBITDA	x	36.1	40.2	10.0	5.3	4.0
EV/EBIT	x	53.3	122.0	17.8	7.8	5.7
Price to book (NAV)	x	10.3	4.2	2.7	2.4	2.1
Price to NTA	x	7.0	0.9	0.8	0.7	0.7

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

Unveiling a Hiit new growth driver in the east coast market

With price leadership over its closest competitor, F45, and with sizeable growth plans expected for its relatively small studio footprint, we expect Hiit Republic to help VVA rapidly in-fill Australia's east coast market. As we highlight in Figure 1, Hiit Republic has a sizeable growth opportunity with just 3k members currently and 13 centres, compared with F45's 120k member base across 500+ centres.

Given Hiit's price competitiveness, we would not be surprised if it eventually takes market share from F45's franchisee network given VVA's solid track-record in-filling regions and managing costs at the back-end, leveraging tech enabled data capabilities and its growing economies of scale.

Figure 1: Fitness centre format overview: Hiit Republic vs Club Lime & F45

Key Metric	Unit	Hiit Republic	Club Lime/ VVA	F45
Style		High intensity interval group training sessions	Multi style big box	45 min group training sessions
Avg size of gym		~364	~1,200	~250 to ~400
Number of Centres	#	13	70	500+
Members	k	3k	100k	120k
Average Weekly fee	\$	\$30-40	\$12-17	\$45-70
EBITDA margin	%	~50%	~22% (FY19A)	N/A

Source: Company data, Petra Capital

Hiit Republic to underpin robust top and bottom line growth for VVA

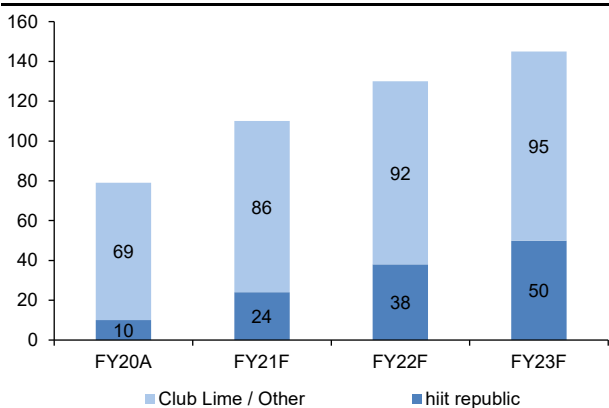
We expect VVA to open 24 Hiit Republic branded studios by FY21F and 50 by FY23F, representing 34% of VVA's centres by FY23F (excluding plus fitness), as seen in

We expect the rollout of Hiit Republic studios to underpin VVA's robust organic growth trajectory over the next three years, with Hiit growing at a 200%+ 3 year EBITDA CAGR and contributing 30% of group EBITDA by FY23F, delivering A\$16m in EBITDA in that year, as seen in

We expect Hiit to deliver rapid earnings growth, owing to its higher revenue per member, and lower fixed and variable costs, for example, Hiit studios have a footprint roughly 1/3rd of the big box club I studios and can dial up or down staffing ratios throughout the day to match customer demand.

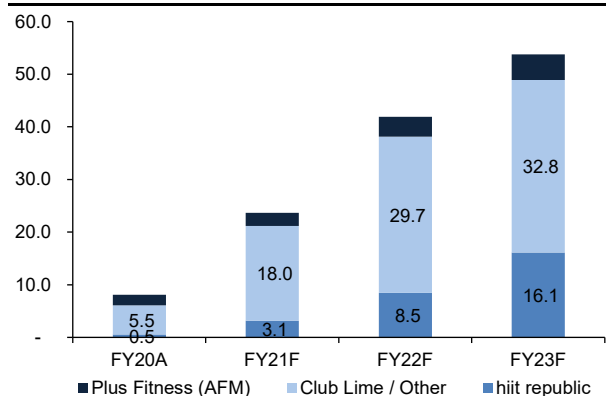
Hiit studios are delivering EBITDA margins of 50% vs group portfolio of 22% in FY19A. For example, group class formats, given their price point tend to have higher demand before office workers begin work during a mid-day lunch break and after 5:00pm than at other times of the day, allowing greater flexibility than the all-purpose big box format, which serves customers all day.

Figure 2: Number of VVA centres (excl. plus fitness)



Source: Company data, Petra Capital

Figure 3: EBITDA (A\$m): by type



Source: Company data, Petra Capital

Our Forecasts & Valuation

As highlighted previously, we expect Hiit Republic to be a significant driver of top and bottom line earnings growth over the forecast period for the Viva Leisure brands segment, as it expands into the east coast market and takes market share from its more expensive competition, f45.

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, as alluded to earlier.

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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