

# Viva Leisure Limited

## Closures weighing us down

VVA has released its bi-monthly trading update illustrating its performance over May and June 2021. Both months saw revenues in excess of \$8m, implying an FY21 result in line with OML's \$82.8m revenue forecast. Acquisitions remain a core part of VVA's strategy and it was pleasing to see terms agreed for 16 clubs across seven acquisitions. True to form, we remain fairly conservative in our FY22 acquisition forecasts as we are cognisant of the delays that lockdowns can have on travel, due diligence, and cash flows required to settle. Following the recent pullback, VVA's last close of \$1.80 offers substantial upside. Trading on an FY23 PE of 12.5x normalised earnings whilst growing FY23 EPS significantly, means we continue to maintain our BUY recommendation yet decrease our 12-month price target to \$3.42ps due to the current lockdown situation in NSW & VIC.

### Lockdowns remain a threat

Whilst a strong finish to FY21, persistent lockdowns in NSW and VIC pose a threat to near-term earnings. The company is still finalising the impact and is planning on providing detail at the full year result. In the interim, we have taken the approach of estimating ~30% of corporate club monthly revenue is derived from NSW & VIC gyms. We assume two months of NSW closures and one month of Victorian closures in our numbers at this stage.

### Changes to forecasts

Due to the everchanging nature of NSW and VIC restrictions, we estimate the combined impact of the Victorian and NSW lockdowns is a 5.7% downgrade to our FY22 revenue forecasts. We have assumed a 30% club margin, implying a 9.8% reduction in FY22 EBITDA. The flow on effect of reduced member growth during the locked down period and a delayed return to normal operations driven by potentially lingering restrictions also impacts our FY23 revenue and EBITDA.

### Path to recovery is clear

VVA saw Jun-21 monthly revenue grow in excess of 300% on pcp, giving us comfort that VVA's management knows the path forward following the end of lockdowns. We remain aware of downside risk arising from lockdowns, yet we hold the view that the recent pullback offers compelling upside for VVA shareholders.

Year-end June (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (\$m)	33.1	40.9	82.8	111.1	144.9
EBITDA (\$m)	7.5	6.1	13.4	20.7	35.1
EBIT (\$m)	5.3	2.0	4.5	8.7	19.9
Reported NPAT (\$m)	3.2	(6.2)	(7.9)	(5.6)	1.8
Reported EPS (c)	6.0	(10.3)	(10.2)	(6.8)	2.2
Normalised NPAT (\$m)	3.3	1.4	2.1	4.4	11.8
Normalised EPS (c)	6.2	2.4	2.7	5.5	14.4
EPS Growth (%)	-	(61.8)	15.4	99.7	164.7
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	10.7	13.4	9.1	7.1	4.4
Normalised P/E (x)	29.1	76.1	65.9	33.0	12.5
Normalised ROE (%)	25.3	3.2	2.9	5.4	14.8

Source: OML, Iress, Viva Leisure Limited

### Last Price

**A\$1.80**

### Target Price

**A\$3.42** (Previously A\$3.73)

### Recommendation

**Buy**

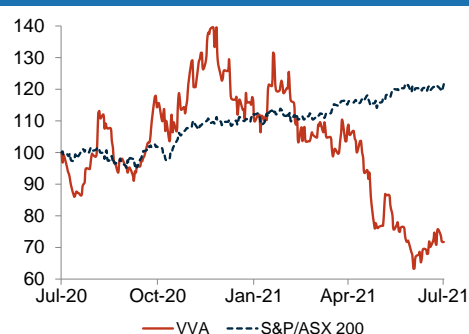
### Risk

**Higher**

### Leisure Facilities

ASX Code	VVA
52 Week Range (\$)	1.59 - 3.50
Market Cap (\$m)	128.7
Shares Outstanding (m)	71.5
Av Daily Turnover (\$m)	0.1
3 Month Total Return (%)	-34.1
12 Month Total Return (%)	-28.3
Benchmark 12 Month Return (%)	21.6
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	4.4
EPS (C) (c)	-	-
EPS (OM) (c)	2.7	5.5

Source: OML, Iress, Viva Leisure Limited

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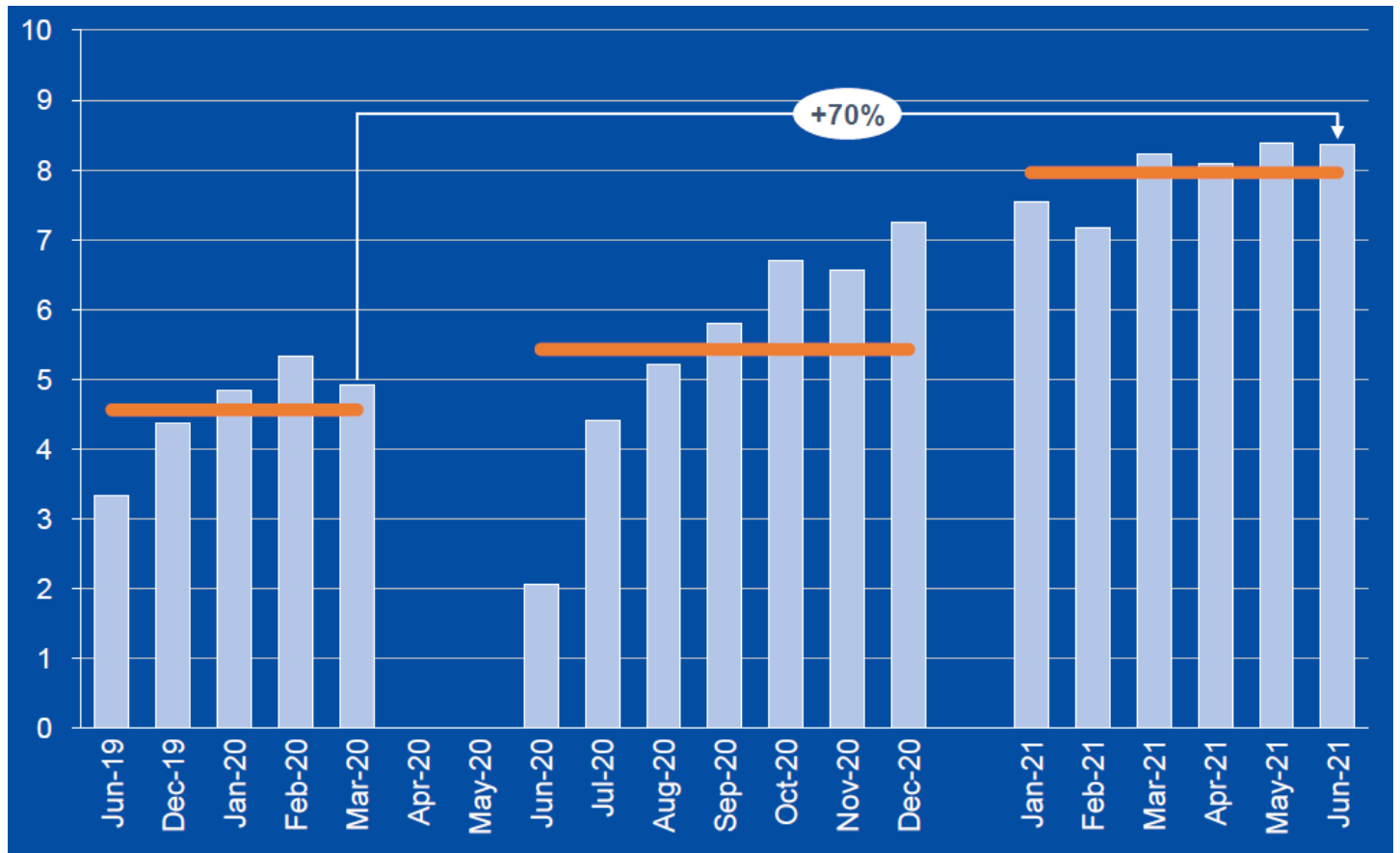
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## Trading update

- VVA has released a trading update for the May and June 2021 period.
- Whilst performance during the months was in line with expectations, we note a lack of formal detail surrounding the impacts of current restrictions in NSW and Victoria outside of the 38 clubs not currently operating.
- Revenue for the May and June period was ~\$8.4m per month (in line with OMLe) and illustrates the strong bounce back to profitability when restrictions are not abundant.
- VVA owned club members totalled to 126k vs OMLe’s 122k. This is in line with our expectations given ~4k members are suspended on average at any point.
- Locations as at 30 June 2021 were 115 (vs OMLe 113). Club owned locations have since increased to 117 at today’s date.
- VVA also announced that it has secured terms to acquire multi-club chains comprising 11 gyms in total.
- The greenfield pipeline remains strong, with 21 sites with a Heads of Agreement or Lease secured.
- VVA provided an update on the Plus Fitness franchisees, stating: “Confidential discussions with a group of Plus Fitness franchisees in relation to concerns and potential claims they have expressed are continuing. No resolution has been concluded at this stage.”

Figure 1: VVA monthly revenue



Source: VVA, OML

## Changes to forecasts and assumptions

- FY21 sales revenue released in the presentation appeared to be tracking in line with OMLe and as such, we have refrained from making any adjustments to our FY21 numbers in the lead up to the VVA's August-21 annual result.
- Rather, our FY22 revenue reduction of 5.7% is driven by the estimated impact of two months of NSW and one month of Vic lockdowns. We assume NSW and Victoria account for 30% of monthly revenue on a combined basis.
- Staff have been stood down, yet rental expenses still remain. We have therefore assumed an EBITDA margin of 30% attributable to the NSW & VIC closed clubs. The result is a 9.8% reduction in FY22 EBITDA.
- We are also cognisant that VVA is unlikely to see substantial member growth in FY22 during the lockdown period and have deduced our FY22 member number by 2.6%. This also implies a reduced number for FY23 as growth forecast will offset FY22's reduction.

Figure 2 – Changes to forecasts

	FY21 old	FY21 new	%Δ	FY22 old	FY22 new	%Δ	FY23 old	FY23 new	%Δ
<b>Sales revenue</b>	<b>82.8</b>	<b>82.8</b>	<b>0.0%</b>	<b>117.8</b>	<b>111.1</b>	<b>-5.7%</b>	<b>156.5</b>	<b>144.9</b>	<b>-7.4%</b>
Opex	-69.4	-69.4	0.0%	-94.8	-90.4	4.7%	-117.0	-109.8	6.2%
<b>EBITDA</b>	<b>13.4</b>	<b>13.4</b>	<b>0.0%</b>	<b>23.0</b>	<b>20.7</b>	<b>-9.8%</b>	<b>39.5</b>	<b>35.1</b>	<b>-11.1%</b>
D&A	-8.9	-8.9	0.0%	-12.2	-12.0	1.6%	-15.6	-15.2	2.3%
<b>Normalised EBIT</b>	<b>4.5</b>	<b>4.5</b>	<b>0.0%</b>	<b>10.8</b>	<b>8.7</b>	<b>-19.0%</b>	<b>23.9</b>	<b>19.9</b>	<b>-16.9%</b>
Net interest	-1.5	-1.5	0.0%	-2.4	-2.4	-0.6%	-3.0	-3.0	-1.5%
<b>PBT</b>	<b>3.0</b>	<b>3.0</b>	<b>0.0%</b>	<b>8.4</b>	<b>6.4</b>	<b>-24.5%</b>	<b>20.9</b>	<b>16.8</b>	<b>-19.5%</b>
Tax	-0.9	-0.9	0.0%	-2.5	-1.9	24.5%	-6.3	-5.0	19.5%
<b>Normalised NPATA</b>	<b>2.1</b>	<b>2.1</b>	<b>0.0%</b>	<b>5.9</b>	<b>4.4</b>	<b>-24.5%</b>	<b>14.6</b>	<b>11.8</b>	<b>-19.5%</b>
<b>Normalised EPS (NPATA)</b>	<b>2.7</b>	<b>2.7</b>	<b>0.0%</b>	<b>7.2</b>	<b>5.5</b>	<b>-24.5%</b>	<b>17.9</b>	<b>14.4</b>	<b>-19.5%</b>
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%
<b>Total clubs</b>	<b>113.0</b>	<b>113.0</b>	<b>0.0%</b>	<b>159.0</b>	<b>159.0</b>	<b>0.0%</b>	<b>205.0</b>	<b>205.0</b>	<b>0.0%</b>
<b>Members (owned clubs)</b>	<b>122,220</b>	<b>122,220</b>	<b>0.0%</b>	<b>161,157</b>	<b>157,020</b>	<b>-2.6%</b>	<b>206,754</b>	<b>198,135</b>	<b>-4.2%</b>
<b>EBITDA margin</b>	<b>16.2%</b>	<b>16.2%</b>	<b>0.0%pts</b>	<b>19.5%</b>	<b>18.6%</b>	<b>-0.8%pts</b>	<b>25.2%</b>	<b>24.2%</b>	<b>-1.0%pts</b>

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.
- We remain aware of downside risk arising from lockdowns, yet we hold the view that the recent pullback offers compelling upside for VVA shareholders.

## 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 19.8x) and domestic health/discretionary comps (FY23 average PE 17.9x). VVA's growth profile is far more impressive than the comp set, with OML's EPS growth in FY21, 22 & 23 at 15%, 100% & 165% compared with the average growth rate in health/discretionary comps at 42%, 10% and 13%.

Gym Group in the UK is trading at 33.8x FY23, while Planet Fitness in the US is 32x FY23.

### Figure 3 – FY23 PE valuation

#### FY23 PE valuation

FY23 NPAT	11.8
PE multiple (x)	15.00
<b>Equity value (\$m)</b>	<b>176.5</b>
Equity value per share (\$)	2.17

Implied metrics	FY22	FY23
Implied FY23 EV/EBITDA (x)	7.7	4.5
Implied FY23 PE NPAT (x)	39.7	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 \$3.42 per share, implying 90% upside to the last price of \$1.80.

**Our \$3.42 target implies an FY23 PE of 23.7x (a ~26% and ~30% discount to Planet Fitness and The Gym Group, respectively)**

### Figure 4 – Price target derivation

#### Price target derivation

DCF valuation (\$ ps)	4.01
FY23 PE (\$ ps)	2.17
<b>Average</b>	<b>3.09</b>
Cost of equity (%)	10.8%
<b>Rolled-forward valuations (\$ ps)</b>	<b>3.42</b>
Less dividend (\$ ps)	0.00
<b>One-year forward price target (\$ ps)</b>	<b>3.42</b>

Implied metrics by target	FY22	FY23
EV/EBITDA (x)	12.4	7.3
PE NPATA (x)	62.7	23.7

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	1,886	-	43.7	20.1	81.2	12.8	10.5	-191%	n/a	117%
SLK AU	SeaLink Travel Group Ltd	2,009	26.4	22.1	19.6	13.4	11.3	10.4	53%	20%	13%
THL NZ	Tourism Holdings Ltd	347	-	806.7	13.1	12.1	8.3	4.5	-147%	n/a	6067%
EXPAU	Experience Co Ltd	158	-	285.0	23.8	28.0	19.5	9.9	-127%	n/a	1100%
ATL AU	Apollo Tourism & Leisure Ltd	67	-	120.0	7.3	25.3	7.0	5.2	-233%	n/a	1533%
<b>Average (excl. EXP/ATL/THL)</b>			<b>na</b>	<b>32.9</b>	<b>19.8</b>	<b>47.3</b>	<b>12.7</b>	<b>9.9</b>	<b>-106%</b>	<b>na</b>	<b>70%</b>
<b>Median (excl. EXP/ATL/THL)</b>			<b>na</b>	<b>43.7</b>	<b>19.6</b>	<b>13.4</b>	<b>12.0</b>	<b>9.6</b>	<b>na</b>	<b>na</b>	<b>98%</b>
VVA AU	Viva Leisure OMLe	147	65.9	33.0	12.5	9.9	6.4	3.8	15%	100%	165%
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	1,409	17.8	17.2	15.5	7.1	7.3	6.8	49%	3%	11%
LOV AU	Lovisa Holdings Ltd	1,643	60.2	36.2	27.5	18.3	14.6	11.8	-28%	66%	32%
IDX AU	Integral Diagnostics Ltd	1,079	26.2	26.1	23.9	13.9	13.3	12.5	25%	0%	9%
NCK AU	Nick Scali Ltd	987	12.5	17.5	16.9	8.3	10.6	10.4	89%	-29%	3%
CCX AU	City Chic Collective Ltd	1,308	54.0	38.0	31.5	29.5	22.4	19.2	24%	42%	21%
APIAU	Australian Pharmaceutical Industries Ltd	692	23.0	15.1	13.3	7.3	6.0	5.2	-44%	52%	14%
BBNAU	Baby Bunting Group Ltd	746	28.4	24.4	21.1	15.6	13.8	12.2	83%	16%	16%
ADH AU	Adairs Ltd	670	9.3	10.8	10.1	5.5	6.1	5.8	142%	-14%	7%
RDC AU	Redcape Hotel Group	541	9.6	9.4	9.1	18.8	17.5	16.5	52%	2%	4%
VRT AU	Virtus Health Ltd	536	13.2	15.0	12.0	8.4	8.9	8.8	43%	-12%	2%
BLX AU	Beacon Lighting Group Ltd	380	10.3	14.2	14.7	5.8	6.8	6.9	123%	-27%	-3%
PSQ AU	Pacific Smiles Group Ltd	399	26.6	28.4	22.7	13.6	13.4	11.0	54%	-6%	25%
FFPAU	Propel Funeral Partners Ltd	367	23.5	23.4	21.8	13.1	12.9	12.2	24%	1%	7%
MMF AU	Monash IVF Group Ltd	343	14.7	15.2	14.7	8.1	7.9	7.7	-28%	-3%	3%
CAJ AU	Capitol Health Ltd	380	21.8	21.8	19.5	10.0	10.4	9.6	42%	0%	12%
TRS AU	Reject Shop Ltd/The	217	34.7	19.6	12.8	12.4	9.2	7.4	n/a	77%	53%
ONT AU	1300SMILES Ltd	163	17.5	18.1	17.7	9.0	9.4	9.3	15%	-3%	2%
<b>Average</b>			<b>23.7</b>	<b>20.6</b>	<b>17.9</b>	<b>12.1</b>	<b>11.2</b>	<b>10.2</b>	<b>42%</b>	<b>10%</b>	<b>13%</b>
<b>Median</b>			<b>21.8</b>	<b>18.1</b>	<b>16.9</b>	<b>10.0</b>	<b>10.4</b>	<b>9.6</b>	<b>42%</b>	<b>0%</b>	<b>9%</b>
VVA AU	Viva Leisure OMLe	147	65.9	33.0	12.5	9.9	6.4	3.8	15%	100%	165%
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	8,559	77.6	41.7	32.0	33.1	23.5	20.1	-40%	86%	30%
BFIT NA	Basic-Fit NV	3,767	-	85.0	31.6	32.1	13.3	9.8	-412%	n/a	169%
TVTY US	Tivity Health Inc	1,629	16.1	14.6	13.9	10.3	9.9	9.2	-30%	11%	na
GYMLN	Gym Group PLC/The	983	-	99.0	33.8	31.0	10.6	8.8	-282%	n/a	na
SPORTS MM	Grupo Sports World SAB de CV	43	-	-	-	104.7	7.7	-	n/a	na	na
ATIC SS	Actic Group AB	40	270.0	7.9	5.0	5.9	5.0	-	-93%	na	na
<b>Average</b>			<b>121.2</b>	<b>49.6</b>	<b>23.3</b>	<b>36.2</b>	<b>11.7</b>	<b>12.0</b>	<b>-171%</b>	<b>48%</b>	<b>100%</b>
<b>Median</b>			<b>77.6</b>	<b>41.7</b>	<b>31.6</b>	<b>31.5</b>	<b>10.2</b>	<b>9.5</b>	<b>-93%</b>	<b>48%</b>	<b>100%</b>
VVA AU	Viva Leisure OMLe	147	65.9	33.0	12.5	9.9	6.4	3.8	15%	100%	165%

Source: OML and Bloomberg \*prices as of 22 July 2021

## Viva Leisure Limited

PROFIT & LOSS (A\$m)	2019A	2020A	2021E	2022E	2023E
Revenue	33.1	40.9	82.8	111.1	144.9
Operating costs	(25.6)	(34.8)	(69.4)	(90.4)	(109.8)
<b>Operating EBITDA</b>	<b>7.5</b>	<b>6.1</b>	<b>13.4</b>	<b>20.7</b>	<b>35.1</b>
D&A	(2.1)	(4.1)	(8.9)	(12.0)	(15.2)
<b>EBIT</b>	<b>5.3</b>	<b>2.0</b>	<b>4.5</b>	<b>8.7</b>	<b>19.9</b>
Net interest	(0.7)	(0.8)	(1.5)	(2.4)	(3.0)
<b>Pre-tax profit</b>	<b>4.7</b>	<b>1.2</b>	<b>3.0</b>	<b>6.4</b>	<b>16.8</b>
Net tax (expense) / benefit	(1.4)	0.2	(0.9)	(1.9)	(5.0)
Significant items/Adj.	(0.1)	(7.7)	(10.0)	(10.0)	(10.0)
<b>Normalised NPAT</b>	<b>3.3</b>	<b>1.4</b>	<b>2.1</b>	<b>4.4</b>	<b>11.8</b>
<b>Reported NPAT</b>	<b>3.2</b>	<b>(6.2)</b>	<b>(7.9)</b>	<b>(5.6)</b>	<b>1.8</b>
Normalised dil. EPS (cps)	6.2	2.4	2.7	5.5	14.4
Reported EPS (cps)	6.0	(10.3)	(10.2)	(6.8)	2.2
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	20.7	35.1
Change in working capital	0.9	7.0	(2.9)	(0.7)	(0.3)
Net Interest (paid)/received	(0.6)	(7.9)	(1.5)	(2.4)	(3.0)
Income tax paid	(0.5)	(1.6)	(0.9)	(1.9)	(5.0)
Other operating items	-	-	-	-	-
<b>Operating Cash Flow</b>	<b>7.3</b>	<b>3.6</b>	<b>8.1</b>	<b>15.7</b>	<b>26.7</b>
Capex	(3.9)	(17.9)	(11.9)	(18.7)	(19.5)
Acquisitions	(7.1)	(17.7)	(23.4)	(5.5)	(3.7)
Other investing items	(0.3)	-	-	-	-
<b>Investing Cash Flow</b>	<b>(11.2)</b>	<b>(35.1)</b>	<b>(35.2)</b>	<b>(24.2)</b>	<b>(23.1)</b>
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)
<b>Financing Cash Flow</b>	<b>17.1</b>	<b>47.1</b>	<b>27.5</b>	<b>1.4</b>	<b>(15.9)</b>
FX adjustment	0.6	-	-	-	-
Net Inc/(Dec) in Cash	13.2	15.7	0.5	(7.1)	(12.3)

BALANCE SHEET (A\$m)	2019A	2020A	2021E	2022E	2023E
Cash	14.4	30.1	30.6	23.5	11.2
Receivables	0.2	2.7	5.8	8.9	11.6
Inventory	-	-	-	-	-
Other current assets	0.4	3.0	3.0	3.0	3.0
PP & E	19.2	28.6	42.7	64.8	86.5
Intangibles	6.6	20.5	43.9	49.3	53.0
Other non-current assets	3.5	234.6	234.6	234.6	234.6
<b>Total Assets</b>	<b>44.3</b>	<b>319.5</b>	<b>360.5</b>	<b>384.1</b>	<b>399.9</b>
Short term debt	2.3	16.1	22.9	35.5	32.9
Payables	2.5	5.1	5.4	7.8	10.1
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
<b>Total Liabilities</b>	<b>18.5</b>	<b>256.2</b>	<b>276.1</b>	<b>305.3</b>	<b>319.3</b>
<b>Total Equity</b>	<b>25.8</b>	<b>63.3</b>	<b>84.4</b>	<b>78.8</b>	<b>80.6</b>
Net debt (cash)	(14.4)	(22.1)	(17.6)	(0.5)	6.8

## Buy

DIVISIONS	2019A	2020A	2021E	2022E	2023E
<b>KEY METRICS (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue growth	37.1	23.6	102.6	34.1	30.4
EBITDA growth	79.1	(18.9)	120.6	54.7	69.3
EBIT growth	102.1	(62.5)	125.4	93.5	127.6
Normalised EPS growth	-	(61.8)	15.4	99.7	164.7
EBITDA margin	22.6	14.8	16.2	18.6	24.2
OCF /EBITDA	112.4	215.5	78.7	96.6	99.0
EBIT margin	16.1	4.9	5.4	7.8	13.7
Return on assets	13.4	1.3	0.9	1.6	3.5
Return on equity	25.3	3.2	2.9	5.4	14.8

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	30.0	-	-	-	83.0
Normalised P/E	29.1	76.1	65.9	33.0	12.5
Price To Free Cash Flow	26.4	-	-	-	20.5
Price To NTA	4.9	2.4	3.4	5.0	5.3
EV / EBITDA	10.7	13.4	9.1	7.1	4.4
EV / EBIT	15.1	40.5	27.0	16.8	7.7

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	(126.5)	(53.7)	(26.4)	(0.7)	7.8
Net Debt / EBITDA (%)	(192.3)	(364.3)	(131.4)	(2.5)	19.4
EBIT Interest Cover (x)	7.8	2.6	3.0	3.7	6.5
EBITDA Interest Cover (x)	11.0	8.0	9.0	8.7	11.5

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
<b>WACC (%)</b>	<b>9.9</b>

Forecast cash flow (\$m)	12.3
Terminal value (\$m)	296.9
Franking credit value (\$m)	-
Enterprise Value (\$m)	326.9
Less net debt / add net cash & investments (\$m)	(17.6)
<b>Equity NPV (\$m)</b>	<b>309.3</b>
<b>Equity NPV Per Share (\$)</b>	<b>4.01</b>

Multiples valuation method	FY23 PE
Multiples	15.0
Multiples valuation	2.17

Target Price Method	Rolled fwd DCF and PE
Target Price (\$)	3.42
Valuation disc. / (prem.) to share price (%)	90.0

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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.

<b>SPECULATIVE BUY</b>	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.
<b>BUY</b>	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
<b>ACCUMULATE</b>	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.
<b>HOLD</b>	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
<b>LIGHTEN</b>	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
<b>SELL</b>	We expect the total return to lose 15% or more.
<b>RISK ASSESSMENT</b>	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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