

Viva Leisure Limited

hiit-ing the mark

Viva Leisure announced its first multi-club acquisition since listing on the ASX in June 2019 with the purchase of eight clubs and 10,000 members in Queensland. This acquisition represents Viva's first foray into Queensland, and it now operating across all eastern states. The acquisition price of \$2.7m represents a pre-synergies FY multiple of 3.25x, but this is expected to fall post synergies to 2x. We update for 1) the acquisition, 2) a strong trading update and 3) the bumper greenfield pipeline to see our FY21 NPATA forecast rise by 13%. We retain a Buy on Viva, with our price target, which assumes no material new acquisitions, improving to \$2.83 from \$2. VVA retains significant cash reserves to complete further acquisitions and rollouts, keeping us positive on the story despite the 150% uplift since float.

Fresh hub north of the border

Viva has pleasantly surprised with its first acquisition since listing. Viva entered the Queensland market by acquiring eight out of a group of 12 centres located in semi-regional and suburban areas around Brisbane. The acquisition was completed on an attractive multiple and offers considerable growth given the exposure to a new population area. This is especially prevalent when comparing Queensland's 5m population to the ACT's 425k. This new hub provides fresh optionality for even more greenfield development. We maintain the view that acquisitions are likely to continue when Viva can identify a group of clubs that offer the potential to expand its "hub and spoke" model.

hiit-ing the mark, strong trading update

The announcement also included a trading update highlighting Viva's progress since listing, with member numbers increasing 8% from 30 June (excl. acquisition). Furthermore, these numbers include 1,565 hiit Republic members (+101% from Jul-19). The increased hiit Republic member numbers combined with the plan to have nine locations (currently six) operating by HY20, illustrates the early success the alternative product offering is having.

Price target up 40% to \$2.83, retain Buy

We value VVA using a 15x FY21 NPATA multiple and DCF to reach a \$2.83 price target, offering 13% without any capturing of future large acquisitions.

Key Financials

Year-end June (\$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (\$m)	24.1	33.1	52.4	70.2	77.2
EBITDA (\$m)	4.2	7.5	13.4	19.2	21.6
EBIT (\$m)	2.6	5.3	9.1	13.4	15.7
Reported NPAT (\$m)	2.2	3.2	2.4	5.5	7.2
Reported EPS (c)	-	6.0	4.5	10.5	13.7
Normalised NPAT (\$m)	2.2	3.3	5.8	8.9	10.5
Normalised EPS (c)	-	6.2	11.1	17.0	20.0
EPS Growth (%)	-	-	78.7	53.5	18.1
Dividend (c)	-	-	-	6.8	8.5
Net Yield (%)	-	-	-	2.7	3.4
Franking (%)	-	-	-	100	100
EV/EBITDA (X)	1.5	16.7	9.8	6.4	5.5
Normalised P/E (x)	-	40.4	22.6	14.7	12.5
Normalised ROE (%)	-	25.3	21.6	29.6	31.1

Source: OML, Iress, Viva Leisure Limited

Ord Minnett acted as Sole Lead Manager to the IPO of VVA in June 2019 and received fees for acting in this capacity

Last Price

A\$2.50

Target Price

A\$2.83 (Previously A\$2.00)

Recommendation

Buy

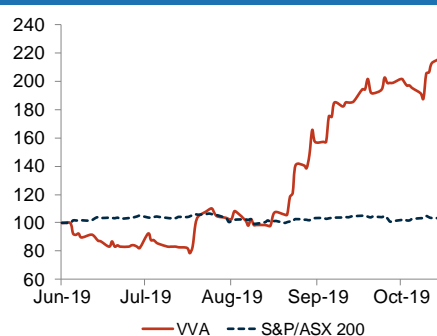
Risk

Higher

Consumer Services

ASX Code	VVA
52 Week Range (\$)	-
Market Cap (\$m)	131.5
Shares Outstanding (m)	52.6
Av Daily Turnover (\$m)	-
3 Month Total Return (%)	180.9
12 Month Total Return (%)	-
Benchmark 12 Month Return (%)	13.0
NTA FY20E (¢ per share)	36.6
Net Cash FY20E (\$m)	0.4

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY20E	FY21E
NPAT (C) (\$m)	-	-
NPAT (OM) (\$m)	5.8	8.9
EPS (C) (c)	-	-
EPS (OM) (c)	11.1	17.0

Source: OML, Iress, Viva Leisure Limited

Nicholas McGarrigle

Head of Institutional Research
(02) 8216 6345
nmcgarrigle@ords.com.au

Jason Korchinski

Research Associate
(02) 8216 6348
jKorchinski@ords.com.au

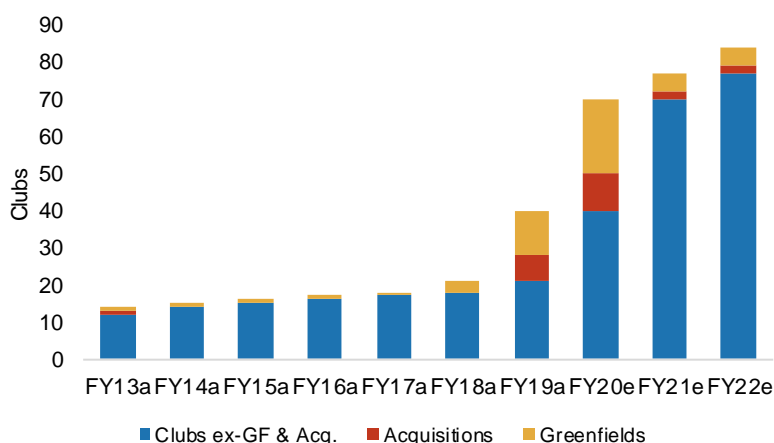
QLD based acquisition and trading update

- VVA announcement to acquire eight centres throughout Queensland under the Healthworks Fitness Centres brand, adding ~10k members.
- The acquisition price is \$2.7m, representing a multiple of 3.25x FY19 normalised EBITDA (pre-synergies). It was fully funded through cash reserves.
- This acquisition means VVA has now secured 70 locations:
 - 52 clubs acquired or currently operating (40 operating in Jun-19)
 - five to open soon
 - 13 in a pre-fit out stage
- Management have also guided to the aim of operating over 15 locations in QLD over the next 12 months.
- Three additional Hiit Republic locations included within the 70 club pipeline.
- Total membership is up 8% from 30 June 2019, with net member growth (exlc. acquisitions) running at approx. 1,100 members per month.
- Hiit Republic has also grown significantly, members are now up 101% from Jul-19 and exceeding 1,565 members.

Impact of the acquisition and trading update

- Management anticipate realisation of all post-acquisition synergies, implying a post-synergies multiple is expected to be closer to 2.0x FY19 on a full year run rate.
- We view significant uplift driven by the acquisition, given its 2.0x multiple (post-synergies). This implies an FY20 pro-forma EBITDA uplift of 4%.
- The entrance into the Queensland market is also compelling, as it represents a new hub with opportunities to expand.

Figure 1 – Pipeline of new sites



Source: OML and VVA

About Healthworks Fitness Centres

- Healthworks Fitness Centres are part of a chain of 12 clubs, with VVA acquiring eight of the clubs. The locations of clubs Viva acquired were:
 - Aspley, Deagon, Ipswich, Newstead Gasworks, Redcliffe, Tenerife and West End
- The gyms are in Brisbane's surrounding suburbs, Ipswich and in the Sunshine Coast.
- The clubs vary in size, but on average are ~1,000sqm per venue. One of the venues is smaller at ~300sqm, but it is strategically placed around 1.5km from another.
- The geographical regions and proximity between each club offer a solid base to expand spokes in the surrounding areas. Likely options would be to expand on the Sunshine Coast or Ipswich, given Viva will acquire one club in each of those regions.

Changes to forecasts

- Increased FY20 acquired sites from two sites to 10.
- Costs increase attributable to acquisition
- Increased amortisation attributable to roll-out strategy and take up of acquired leases
- Prior amortisation modelling was in line with prospectus, but with significant pipeline rollout toward end-FY20 we have adjusted lease amortisation at this juncture which weighs on near-term NPATA
- Adjusting yield driven by lower margin Healthworks Queensland acquisition pre-synergies

Figure 2 – Changes to forecasts

	FY20 old	FY20 new	%Δ	FY21 old	FY21 new	%Δ	FY22 old	FY22 new	%Δ
Sales revenue	48.4	52.4	8.3%	56.9	70.2	23.3%	61.0	77.2	26.5%
Opex	-35.5	-39.0	-9.8%	-41.2	-50.9	-23.7%	-43.8	-55.5	-26.6%
EBITDA	12.8	13.4	4.1%	15.7	19.2	22.3%	17.2	21.6	26.2%
D&A	-3.3	-4.3	-31.9%	-4.4	-5.8	-32.3%	-4.4	-6.0	-35.2%
Normalised EBIT	9.6	9.1	-5.3%	11.3	13.4	18.4%	12.7	15.7	23.0%
Net interest	-0.8	-0.8	0.3%	-0.4	-0.7	-51.7%	-0.4	-0.6	-60.8%
PBT	8.8	8.3	-5.8%	10.9	12.8	17.1%	12.4	15.1	21.8%
Tax	-2.4	-2.5	-2.8%	-3.0	-3.8	-27.7%	-3.4	-4.5	-32.9%
Normalised NPAT	6.4	5.8	-9.0%	7.9	8.9	13.0%	9.0	10.5	17.6%
One-offs	-3.2	-3.5	-6.3%	-3.2	-3.4	-7.3%	-3.1	-3.3	-8.0%
Reported NPAT	3.1	2.4	-24.8%	4.7	5.5	16.9%	5.9	7.2	22.7%
Members	69,193	84,908	22.7%	74,343	93,888	26.3%	78,033	100,736	29.1%
Average members	61,616	67,389	9.4%	71,768	89,398	24.6%	76,188	97,312	27.7%
Revenue/member p/month	65.4	64.8	-1.0%	66.1	65.4	-1.0%	66.7	66.1	-1.0%
EBITDA/member p/year	208.5	198.5	-4.8%	219.2	215.2	-1.8%	225.2	222.5	-1.2%

Source: OML

Recommendation, valuation and price target

Recommendation

- We retain a Buy recommendation, as VVA continues to expand within the eastern states of Australia. We also find the entrance into the Queensland market as an attractive opportunity with potential upside coming from establishing additional spokes.
- Despite a strong run, Viva maintains an attractive FY21 NPATA PE of 15x (excluding gross (net cash) from VVA's market capitalisation).

Valuation

Discounted cash flow (DCF) – Captures the long-term nature of Viva's greenfield and acquisition plans, Viva's finance leases and strong cash flow conversion.

We capture all capex and finance lease payments in our free cash flow forecasts (and hence use gross cash to exclude finance leases), to appropriately account for all expenditures on maintenance and expansion capex.

Our assumed five greenfields and acquisitions per annum from FY21 onward is a very conservative number given the current pace of expansion, planned 13-20 greenfields and sizable balance sheet for deployment into roll-ups.

Figure 3 – DCF valuation

DCF inputs		DCF valuation	
Beta	1.20	Forecast cash flows (\$m)	41.7
Risk free rate	5.0%	Terminal value (\$m)	75.2
Market risk premium	6.0%	Enterprise value (\$m)	116.9
Cost of equity	12.2%	add FY20e gross cash (\$m)	15.1
		Equity value (\$m)	132.0
Debt premium	4.0%	Equity value per share (\$)	2.51
Cost of debt (after tax)	6.3%		
D/E	0.0%	CAGR (FY18-26)	
WACC	12.2%	Members	17.5%
		Revenue	20.0%
Terminal growth rate	2.0%	EBITDA	28.6%
		Normalised NPATA	28.7%
		FY21PF metrics	
		Implied FY21PF EV/EBITDA (x)	6.1
		Implied FY21PF PE NPATA (x)	14.8
		Implied FY21PF PE NPATA (ex-cash) (x)	13.1

Source: OML

FY21 PE comp – compares Viva to other domestic leisure and discretionary businesses, as well as international fitness centres. We apply an FY21 PE multiple of 15.0x implying a discount of ~31% to the most direct comparables.

We see a discount to these already listed comps as reasonable considering Viva's lack of listed history, emerging expansion strategy into new, less known markets, finance leases (can distort EBITDA comparisons) and Viva's micro-cap status.

The company intends to invest the excess cash on the pro-forma balance sheet into new clubs, making it sensible to assess Viva's implied PE on an "ex-cash" basis.

Figure 4 – FY21 PE valuation

FY21 PE valuation	
FY21PF NPATA	8.9
PE multiple (x)	15.00
Enterprise value (\$m)	133.9
add FY20e net cash (\$m)	-0.4
Equity value (\$m)	133.6
Equity value per share (\$)	2.54

FY21PF metrics

Implied FY21PF EV/EBITDA (x)	7.0
Implied FY21PF PE NPATA (x)	15.0
Implied FY21PF PE NPATA (ex-cash) (x)	15.0

Source: OML

Price target

Price target – Based on the average of our DCF and EV/EBITDA valuations, rolled forward at our cost of equity, we derive a price target of \$2.83 per share, implying 13% upside to the current price without any factoring of large-scale acquisitions.

Our \$2.83 target only implies a 15x ex-gross-cash PE on an FY21 basis.

Figure 5 – Price target derivation

Price target derivation	
DCF valuation (\$ ps)	2.51
FY21 PE (\$ ps)	2.54
Average	2.52
Cost of equity (%)	12.2%
Rolled-forward valuations (\$ ps)	2.83
Less dividend (\$ ps)	0.00
One-year forward price target (\$ ps)	2.83

FY21PF metrics

Implied FY21PF EV/EBITDA (x)	7.8
Implied FY21PF PE NPATA (x)	17.9
Implied FY21PF PE NPATA (ex-net cash) (x)	16.7
Implied FY21PF PE NPATA (ex-gross cash) (x)	15.0

Source: OML

Comparables

- We look at domestic leisure and domestic retail/healthcare companies as comparable for our VVA valuation. The comp sets trade on a median FY21 PE range of 5.4-41.9x versus VVA which is currently on 14.5x.
- Our FY21 PE valuation uses a 15x multiple which represents a 30% discount to account for VVA's lack of listed history, size and early-stage.
- We expect the discount to continue to close as VVA continue to deploy the IPO proceeds and continue to open new greenfield sites.

Figure 6 – Domestic and international comps

Domestic leisure										
Code	Company	Mkt Cap AUD	PE		EV/EBITDA		EPS Growth		PEG	
			FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
EVT AU	EVENT Hospitality and Entertainment	2,167	19.1	17.9	10.2	9.7	1%	7%	13.27	2.51
VRL AU	Village Roadshow Ltd	613	21.8	17.7	6.2	5.7	n/a	23%	na	na
ALG AU	Ardent Leisure Group Ltd	583	405.0	41.9	8.9	6.7	n/a	867%	na	na
THL NZ	Tourism Holdings Ltd	504	18.9	13.9	6.5	6.3	-38%	36%	-0.50	0.38
SLK AU	SeaLink Travel Group Ltd	709	20.5	16.5	10.2	6.4	5%	25%	4.03	0.67
EXP AU	Experience Co Ltd	125	14.1	11.8	5.7	5.2	-48%	19%	-0.29	0.63
ATL AU	Apollo Tourism & Leisure Ltd	90	5.4	5.4	6.0	6.1	-23%	0%	-0.24	-
Average (excl. EXP/ATL)			97.1	21.6	8.4	7.0	-10%	191%	5.60	1.19
Median (excl. EXP/ATL)			20.5	17.7	8.9	6.4	1%	25%	4.03	0.67

Domestic discretionary and health										
Code	Company	Mkt Cap AUD	PE		EV/EBITDA		EPS Growth		PEG	
			FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
BAP AU	Bapcor Ltd	1,995	19.5	17.8	12.8	11.7	7%	9%	2.73	1.95
LOV AU	Lovisa Holdings Ltd	1,461	35.2	27.8	19.7	15.6	12%	27%	3.02	1.04
AX1 AU	Accent Group Ltd	851	14.7	14.0	7.5	6.9	9%	5%	1.60	3.00
LIC AU	Lifestyle Communities Ltd	831	23.2	18.9	17.7	14.1	-11%	22%	-2.17	0.84
NCK AU	Nick Scali Ltd	533	15.5	13.8	9.6	8.9	-18%	12%	-0.88	1.13
IDX AU	Integral Diagnostics Ltd	626	19.8	17.7	11.5	9.9	3%	12%	6.58	1.52
ADH AU	Adairs Ltd	299	9.8	8.8	5.8	5.3	5%	11%	na	0.81
CAJ AU	Capitol Health Ltd	188	14.4	13.6	8.1	7.2	42%	6%	0.35	2.31
Average			19.0	16.6	11.6	9.9	6%	13%	1.60	1.57
Median			17.5	15.9	10.5	9.4	6%	11%	1.60	1.32

Source: OML and Bloomberg *prices as at 16 Oct 2019

Viva Leisure Overview

About Viva Leisure

Viva Leisure Pty Ltd (Viva) commenced operations in Canberra in January 2004. The aim was to facilitate the fitness goals of customers through the “Club Lime” brand. Over the last 15 years, Viva has expanded within the ACT, regional New South Wales, regional Victoria and now Queensland.

Viva has >58,000 members and through new clubs roll-outs and acquisitions we expect it to have close to 79,000 members and \$51.8m of revenue in FY20. Viva has improved its utilisation rate (assuming a baseline of two members per square metre) to 75% currently, driven by strong visitation (~6 visits per month per member in FY18) effective new member sign-up and strong churn management.

Viva offers flexible membership options, including fortnightly direct debits, to suit a variety of target demographics. Viva operates under a “hub and spoke” model, whereby, larger clubs are surrounded by smaller clubs within specific catchments. This model is a point of differentiation and enhances Viva’s operating efficiency.

Key brands

Figure 7 – Key brands in the Viva Leisure portfolio



- **CLUB LIME**
 - Core brand offering
- **CLUB LIME – LADIES ONLY**
 - Core brand offering but exclusively targeting the female market
- **CLUB LIME – SWIM SCHOOL**
 - Offers swimming lessons for a range of levels
- **CLUB LIME – ACQUATICS**
 - Pool access and lane bookings
- **CLUB LIME – PSYCLE LIFE**
 - Indoor cycle studio with a classes only offering
- **GYMMY PT**
 - Offers 1-on-1 personal training and group classes operating in CLUB LIME locations
- **HIIT REPUBLIC**
 - Indoor “High Intensity Interval Training (HIIT)” classes
- **CLUB MMM**
 - A day spa offering a variety of treatments
- **STUDIO BY CLUB LIME**
 - Group exercise in a boutique club

Source: OML and Viva Leisure

Viva Leisure Limited

PROFIT & LOSS (A\$m)	2018A	2019A	2020E	2021E	2022E
Revenue	24.1	33.1	52.4	70.2	77.2
Operating costs	(20.0)	(25.6)	(39.0)	(50.9)	(55.5)
Operating EBITDA	4.2	7.5	13.4	19.2	21.6
D&A	(1.5)	(2.1)	(4.3)	(5.8)	(6.0)
EBIT	2.6	5.3	9.1	13.4	15.7
Net interest	(0.5)	(0.7)	(0.8)	(0.7)	(0.6)
Pre-tax profit	2.1	4.7	8.3	12.8	15.1
Net tax (expense) / benefit	0.1	(1.4)	(2.5)	(3.8)	(4.5)
Significant items/Adj.	-	(0.1)	(3.5)	(3.4)	(3.3)
Normalised NPAT	2.2	3.3	5.8	8.9	10.5
Reported NPAT	2.2	3.2	2.4	5.5	7.2
Normalised dil. EPS (cps)	-	6.2	11.1	17.0	20.0
Reported EPS (cps)	-	6.0	4.5	10.5	13.7
Effective tax rate (%)	(2.9)	30.0	30.0	30.0	30.0
DPS (cps)	-	-	-	6.8	8.5
Dividend yield (%)	-	-	-	2.7	3.4
Payout ratio (%)	-	-	-	40.0	42.5
Franking (%)	-	-	-	100.0	100.0
Diluted # of shares (m)	-	52.6	52.6	52.6	52.6

CASH FLOW (A\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA incl. adjustments	4.2	7.5	13.4	19.2	21.6
Change in working capital	(2.0)	0.9	1.4	1.3	0.5
Net Interest (paid)/received	(0.5)	(0.6)	(0.8)	(0.7)	(0.6)
Income tax paid	-	(0.5)	(2.5)	(3.8)	(4.5)
Other operating items	-	-	-	-	-
Operating Cash Flow	1.7	7.3	11.5	16.0	17.0
Capex	(1.8)	(3.9)	(4.1)	(1.1)	(1.1)
Acquisitions	(0.0)	(7.1)	(3.0)	(1.2)	(1.2)
Other investing items	-	(0.3)	-	-	-
Investing Cash Flow	(1.8)	(11.2)	(7.1)	(2.3)	(2.3)
Inc/(Dec) in equity	-	22.5	-	-	-
Inc/(Dec) in borrowings	0.6	(5.5)	(3.7)	(5.0)	(5.1)
Dividends paid	-	-	-	(1.4)	(3.9)
Other financing items	-	-	-	-	-
Financing Cash Flow	0.6	17.1	(3.7)	(6.4)	(9.0)
FX adjustment	-	0.6	-	-	-
Net Inc/(Dec) in Cash	0.4	13.2	0.7	7.3	5.7

BALANCE SHEET (A\$m)	2018A	2019A	2020E	2021E	2022E
Cash	1.1	14.4	15.1	22.3	28.0
Receivables	0.1	0.2	0.3	0.5	0.5
Inventory	0.1	-	-	-	-
Other current assets	0.1	0.4	0.4	0.4	0.4
PP & E	9.6	19.2	29.4	29.6	30.0
Intangibles	0.0	6.6	8.9	9.5	10.1
Other non-current assets	0.3	3.5	3.5	3.5	3.5
Total Assets	11.4	44.3	57.7	65.8	72.6
Short term debt	4.9	2.3	5.1	4.8	4.6
Payables	2.0	2.5	4.0	5.4	5.9
Other current liabilities	2.1	4.0	4.0	4.0	4.0
Long term debt	2.5	5.7	9.6	9.7	10.1
Other non-current liabilities	0.0	1.4	4.2	7.0	9.8
Total Liabilities	11.5	18.5	29.6	33.6	37.1
Total Equity	(0.1)	25.8	28.1	32.2	35.5
Net debt (cash)	6.3	(6.4)	(0.4)	(7.8)	(13.2)

Buy

DIVISIONS	2018A	2019A	2020E	2021E	2022E
KEY METRICS (%)	2018A	2019A	2020E	2021E	2022E
Revenue growth	-	37.1	58.3	34.0	9.9
EBITDA growth	-	79.1	78.8	43.8	12.5
EBIT growth	-	102.1	70.0	48.1	16.8
Normalised EPS growth	-	-	78.7	53.5	18.1
EBITDA margin	17.3	22.6	25.5	27.4	28.1
OCF / EBITDA	53.0	112.4	110.1	106.5	102.3
EBIT margin	10.9	16.1	17.3	19.1	20.3
Return on assets	-	13.4	12.4	15.2	15.9
Return on equity	-	25.3	21.6	29.6	31.1

VALUATION RATIOS (x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	-	41.7	55.6	23.7	18.2
Normalised P/E	-	40.4	22.6	14.7	12.5
Price To Free Cash Flow	-	36.7	17.8	8.8	8.3
Price To NTA	-	6.8	6.8	5.8	5.2
EV / EBITDA	1.5	16.7	9.8	6.4	5.5
EV / EBIT	2.4	23.4	14.5	9.2	7.5

LEVERAGE	2018A	2019A	2020E	2021E	2022E
ND / (ND + Equity) (%)	101.1	(33.3)	(1.3)	(31.7)	(59.4)
Net Debt / EBITDA (%)	151.8	(86.1)	(2.7)	(40.3)	(61.2)
EBIT Interest Cover (x)	5.0	7.8	12.0	20.1	25.1
EBITDA Interest Cover (x)	7.9	11.0	17.7	28.8	34.7

SUBSTANTIAL HOLDERS	m	%
Konstantinou Family	21.7	41.2%
Mark McConnell	4.5	8.6%
Harry Konstantinou	1.5	2.9%

VALUATION	
Cost of Equity (%)	12.2
Cost of debt (after tax) (%)	9.0
D / EV (%)	-
WACC (%)	12.2

Forecast cash flow (\$m)	41.7
Terminal value (\$m)	75.2
Franking credit value (\$m)	-
Enterprise Value (\$m)	132.0
Less net debt / add net cash & investments (\$m)	(15.1)
Equity NPV (\$m)	116.9
Equity NPV Per Share (\$)	2.51

Multiples valuation method	FY20 EV/EBITDA
Multiples	15.0
Multiples valuation	2.54

Target Price Method	Rolled fwd DCF and EV/EBITDA
Target Price (\$)	2.83
Valuation disc. / (prem.) to share price (%)	13.2

Institutional Research

Nicholas McGarrigle	Head of Institutional Research	+61 2 8216 6345	nmcgarrigle@ords.com.au
Dylan Kelly	Senior Research Analyst	+61 2 8216 6417	dkelly@ords.com.au
Jules Cooper	Senior Research Analyst	+61 3 9608 4117	julescooper@ords.com.au
John O'Shea	Senior Research Analyst	+61 3 9608 4146	joshea@ords.com.au
Phillip Chippindale	Senior Research Analyst	+61 2 8216 6346	pchippindale@ords.com.au
William MacDiarmid	Research Analyst	+61 2 8216 6514	wmacdiarmid@ords.com.au
Jason Korchinski	Research Associate	+61 2 8216 6348	jkorchinski@ords.com.au
Joshua Goodwill	Research Associate	+61 3 9608 4121	jgoodwill@ords.com.au

Institutional Sales (Australia)

Nick Burmester	Head of Institutional Equities	+61 2 8216 6363	nburmester@ords.com.au
Chris McDermott	Institutional Equities Sales	+61 2 8216 6335	cmcdermott@ords.com.au
Frida Bohlenius	Institutional Equities Sales	+61 2 8216 6365	fbohlenius@ords.com.au
Jim Bromley	Institutional Equities Sales	+61 2 8216 6343	jbromley@ords.com.au
Matt White	Institutional Equities Sales	+61 3 9608 4133	mwhite@ords.com.au
Richard Wolff	Institutional Equities Sales	+61 2 8216 6429	rwoff@ords.com.au
Stephen Jolly	Institutional Equities Sales	+61 2 8216 6424	sjolly@ords.com.au
Zac Whitehead	Institutional Equities Sales Support	+61 2 8216 6350	zwhitehead@ords.com.au
Brendan Sweeney	Operator	+61 2 8216 6781	bsweeney@ords.com.au

Institutional Sales (Hong Kong)

Timothy Last	Institutional Equities Sales	+852 2912 8988 +61 8 8203 2526	tlast@ords.com.hk
Chris Moore	Institutional Equities Sales	+61 2 8216 6362	cmoore@ords.com.hk

Ord Minnett Offices

Adelaide
Level 5
100 Pirie Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Buderim
Sunshine Coast
1/99 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Gold Coast
Level 7
50 Appel Street Surfers
Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5557 3377

Melbourne
Level 7
161 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

**Head Office
Sydney**
Level 8, NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311
www.ords.com.au

Brisbane
Level 31
10 Eagle St
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Canberra
101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Mackay
45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888
Fax: (07) 4969 4800

Newcastle
426 King Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

**International
Hong Kong**
1801 Ruttonjee House
11 Duddell Street
Central, Hong Kong
Tel: +852 2912 8980
Fax: +852 2813 7212
www.ords.com.hk

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BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	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.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	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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Ord Minnett acted as Sole Lead Manager to the IPO of VVA in June 2019 and received fees for acting in this capacity