

Viva Leisure Ltd (VVA)

Rating: Buy | Risk: High | Price Target: \$2.60

Business as Usual So Far, But Multiple Short Term Risks are Heightened

Key Information

Current Price (\$ps)	1.44
12m Target Price (\$ps)	2.60
Target Price Upside (%)	80.6%
TSR (%)	80.6%
Reporting Currency	AUD
Market Cap (\$m)	86.1
Sector	Health Care
Avg Daily Volume (m)	0.0
ASX 200 Weight (%)	0%

Fundamentals

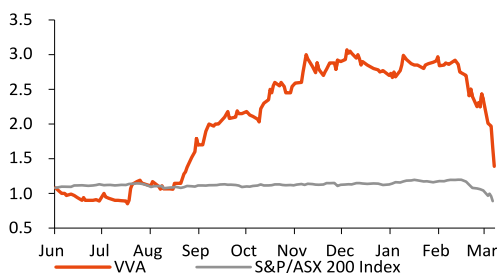
YE 31 Dec (AUD)	FY19A	FY20E	FY21E	FY22E
Sales (\$m)	31.1	54.8	92.2	109.7
NPAT (\$m)	2.9	5.4	9.3	13.1
EPS (cps)	5.4	9.6	15.5	21.9
EPS Growth (%)	(2.1%)	76.4%	61.9%	41.3%
DPS (cps) (AUD)	0.0	0.0	3.8	9.0
Franking (%)	0%	0%	100%	100%

Ratios

YE 31 Dec	FY19A	FY20E	FY21E	FY22E
P/E (x)	50.7	15.0	9.3	6.6
EV/EBITDA (x)	19.1	6.4	4.2	3.5
Div Yield (%)	0.0%	0.0%	2.7%	6.3%
Payout Ratio (%)	0.0%	0.0%	24.7%	41.2%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(26.1%)	(26.6%)	(32.7%)	n/a
Absolute (%)	(51.4%)	(49.8%)	(54.0%)	n/a
Benchmark (%)	(25.3%)	(23.2%)	(21.3%)	(13.9%)



Major Shareholders

Shja Management	36.1%
Mera Vale No1	15.3%
Bennelong	7.6%
Doma Equities	5.7%
OC Funds	4.8%

Event

We spoke with VVA management regarding business conditions and its expectations through to June 30. VVA report business remains on track with guidance and that it has not experienced any impact on patronage. Shaw and Partners forecasts and our 12 month TP are brought back to reflect a 4Q20 impact and our expectation that market multiples will take longer than 12 months to recover. Our BUY rating remains unchanged.

Highlights

- Business as usual so far** - VVA reports its business remains on track with guidance and that it has not experienced any impact on patronage, member cancellations or growth in new signings across its facilities. It continues to run normal promotions without reducing prices, but has stepped up hygiene procedures within its facilities. VVA's monthly sales run rate exiting Dec 2019 was \$4.4m up from \$2.6m at the end of Dec 2018 which all things remaining unchanged provides significant momentum and upside for a full 12 month contribution in 2021. VVA has continued to achieve monthly organic growth since Dec. and has not changed its guidance to run rate growth of 112% for the June 2020 month, however we are now factoring in no growth thru 4Q20. Our relatively conservative downgrade for VVA reflects key business fundamentals highlighted below.
- The average age of VVA members is 32, insulating it from the key high risk age demographics.** Initial data from the CCDC shows most people under the age of 60 do not die from COVID-19. People under 40 have a 0.2% chance of dying if they contract COVID-19 and there has not been a single mortality of a child under the age of 9, i.e. for most people it appears to be safe to continue participating in leisure activities and VVA's gym membership is relatively cheap at ~\$20 pw.

Age	Death Rate Confirmed cases	Death rate All cases
80+ years old	21.90%	14.80%
70-79 years old		8.00%
60-69 years old		3.60%
50-59 years old		1.30%
40-49 years old		0.40%
30-39 years old		0.20%
20-29 years old		0.20%
10-19 years old		0.20%
0-9 years old		No fatalities

Source: The Chinese CCDC, Chinese Journal of Epidemiology. Data is based on 72,314 confirmed, suspected, and asymptomatic COVID-19 cases in China as of February 11.

- VVA's regional exposure is expected to insulate it, unlike city gyms exposed to CBD office closures.** VVA's facilities are located in regional suburban/metro rather than CBD locations insulating it from an expected downturn in city gym patronage as CBD offices potentially face closures. We do note however that VVA's CISAC facility at Canberra University is expected to account for 30% of sales in 2020.
- Multiple short term risks are heightened including:** i) with increased detection of COVID in regional areas patronage reacts at a later stage than in city areas, ii) enforced closure of gyms could be directed by health departments or local governments, iii) the longer the COVID episode continues the greater the chance of cancellations, iv) if infection is traced back to gym facilities it could result in cancellations, and v) VVA does not lock members into 12 month contracts which enables cancellations.

Recommendation

Unlike other discretionary leisure exposures such as the ASX listed travel stocks which are well into significant sales downturns; VVA is reportedly yet to experience any impact. The risk as detailed above is that a possible short term closure could impact sales by more than our downgraded forecasts. We estimate VVA's cash balance post recent acquisitions is now \$12m and with the potential to draw further debt VVA is positioned to acquire cheap assets or cover short term losses. Balancing risk /return we believe it is a relatively low risk exposure yet VVA's share price is off 52% since its February high of \$2.99.

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Viva Leisure Ltd
Health Care
Health Care Equipment & Services
FactSet: VVA-AU / Bloomberg: VVA AU

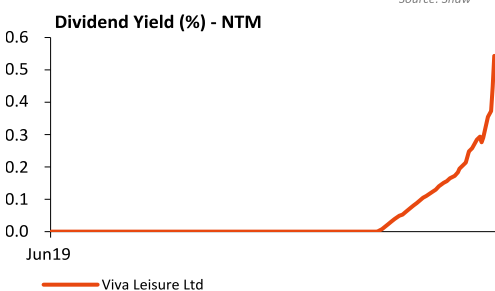
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	1.44
Target Price (\$ps)	2.60
52 Week Range (\$ps)	-
Shares on Issue (m)	59.8
Market Cap (\$m)	86.1
Enterprise Value (\$m)	85.1
TSR (%)	80.6%
Valuation NPV	Data
Beta	1.50
Cost of Debt (net) (%)	7.9%
Risk Free Rate (%)	4.3%
Terminal Growth (%)	3.0%
WACC (%)	13.8%

Company Description

Viva Leisure Ltd. operates health clubs in health and leisure industries. It offers customers with membership options and a range of facilities from big box to boutique fitness. The firm's brands include Club Lime, Ladies Only, Psycle Life, Aquatics, Hiit Republic, Swim School, Gymmy PT and Studio by Club Lime. The company was founded by Harry Konstantinou and Angelo Konstantinou on January 12, 2004 and is headquartered in Mitchell, Australia Capital Territory.



Source: Shaw



Source: Shaw

Financial Year End: 31 December

Investment Summary (AUD)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS (Reported) (cps)	5.5	5.4	8.0	12.2	18.1
EPS (Underlying) (cps)	5.5	5.4	9.6	15.5	21.9
EPS (Underlying) Growth (%)	119.7%	(2.1%)	76.4%	61.9%	41.3%
PE (Underlying) (x)	n/a	50.7	15.0	9.3	6.6
EV / EBIT (x)	n/a	27.5	11.7	8.5	6.2
EV / EBITDA (x)	n/a	19.1	6.4	4.2	3.5
DPS (cps) (AUD)	0.0	0.0	0.0	3.8	9.0
Dividend Yield (%)	n/a	0.0%	0.0%	2.7%	6.3%
Franking (%)	0%	0%	0%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	24.7%	41.2%
Free Cash Flow Yield (%)	n/a	2.1%	(10.4%)	1.1%	5.6%
Profit and Loss (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	24.1	31.1	54.8	92.2	109.7
Sales Growth (%)	16.3%	28.9%	76.4%	68.2%	19.0%
EBITDA	5.2	7.2	13.2	22.6	28.8
EBITDA Margin (%)	21.6%	23.3%	24.1%	24.5%	26.2%
Depreciation & Amortisation	(1.5)	(2.2)	(5.9)	(11.6)	(12.5)
EBIT	3.7	5.0	7.3	11.0	16.3
EBIT Margin (%)	15.2%	16.2%	13.3%	11.9%	14.8%
Net Interest	(0.5)	(1.1)	(0.8)	(0.6)	(0.8)
Pretax Profit	3.1	4.0	6.5	10.4	15.4
Tax	(0.2)	(1.1)	(1.9)	(3.1)	(4.6)
Tax Rate (%)	(7.1%)	(28.2%)	(30.0%)	(30.0%)	(30.0%)
NPAT Underlying	2.9	2.9	5.4	9.3	13.1
NPAT Reported	2.9	2.9	4.5	7.3	10.8
Cashflow (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3.7	5.0	7.3	11.0	16.3
Tax Paid	0.0	(0.5)	(1.9)	(3.1)	(4.6)
Net Interest	(0.5)	(0.6)	(1.2)	(1.0)	(1.0)
Depreciation & Amortisation	1.5	2.2	5.9	11.6	12.5
Other	(3.0)	1.2	2.4	1.5	0.7
Operating Cashflow	1.7	7.3	12.5	20.0	23.8
Capex	0.0	0.0	(21.0)	(19.0)	(19.0)
Acquisitions and Investments	0.0	(7.1)	(17.0)	0.0	0.0
Disposal of Fixed Assets/Investments	0.1	0.2	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	0.1	(7.0)	(38.0)	(19.0)	(19.0)
Free Cashflow	(0.2)	3.1	(8.5)	1.0	4.8
Equity Raised / Bought Back	0.0	22.5	19.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	(4.8)
Other	0.6	(5.5)	3.4	(3.4)	(6.4)
Financing Cashflow	0.6	17.1	22.4	(3.4)	(11.3)
Net Change in Cash	2.3	17.5	(3.1)	(2.4)	(6.5)
Balance Sheet (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	1.1	14.4	11.3	8.9	2.4
Accounts Receivable	0.1	0.2	0.3	0.5	0.6
Inventory	0.1	0.4	0.4	0.4	0.4
Other Current Assets	0.1	0.0	0.0	0.0	0.0
PPE	9.6	19.2	47.1	46.9	45.5
Goodwill & Intangibles	0.0	6.6	5.7	3.7	1.4
Other Non Current Assets	0.3	n/a	n/a	n/a	n/a
Total Assets	11.4	44.2	68.3	63.8	53.7
Accounts Payable	2.0	2.5	2.7	4.0	4.6
Short Term Debt	3.3	2.3	2.3	2.3	2.3
Long Term Debt	4.1	5.7	12.5	14.5	14.5
Income Taxes Payable	0.5	1.5	1.5	1.5	1.5
Other	1.6	6.6	5.3	5.3	5.3
Total Liabilities	11.5	18.5	24.2	27.5	28.1
Total Shareholder Equity	(0.1)	25.8	49.3	56.6	62.5
Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
ROE (%)	(8,489.8%)	22.2%	14.5%	17.5%	22.0%
Gearing (%)	101.1%	(33.3%)	6.5%	12.2%	18.6%
Net Debt / EBITDA (x)	1.2	(0.9)	0.3	0.3	0.5

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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