FORSYTH BARR

Briscoe Group

RESEARCH INSIGHTS#

3Q20 Sales Takeaways

Briscoe Group (BGP) announced robust 3Q20 sales growth, up +5.7% on the prior comparable period, its eleventh consecutive quarter of sales growth. Year to date, BGP is tracking in line with our full year estimates albeit with the important Christmas quarter to come. The retail backdrop remains challenging given cost and competitive pressures, however, BGP has a strong track record and we expect it to continue to operationally outperform peers.

What's changed?

- **Earnings:** Unchanged

Sales growth across the portfolio

BGP announced 3Q20 sales of NZ$140m, up +5.7% on the prior comparable period, with solid growth across the portfolio. Rebel Sport was a highlight, reporting strong sales growth up +7.4% on the prior comparable period. However, this was underpinned by two store openings during the last 12 months with same store sales (SSS) up a more modest +3.2%. Homeware growth accelerated in 3Q20, with SSS up +4.7%.

Figure 1. 3Q20 sales summary

	1Q20	2Q20	3Q20	YTD	FY20E
Homeware					
Homeware Sales (NZ$m)	90.7	100.8	87.9	279.4	419.1
Homeware % growth	+2.9%	+2.3%	+4.7%	+3.2%	+4.0%
Homeware SSS growth	+3.2%	+2.3%	+4.7%	+3.3%	+4.0%
Rebel Sport					
Rebel Sport Sales (NZ$m)	59.9	51.6	52.4	163.9	240.3
Rebel Sport % growth	+2.3%	+7.6%	+7.4%	+5.5%	+5.0%
Rebel Sport SSS growth	+0.4%	+5.6%	+3.2%	+2.9%	+1.8%
Group					
Total sales	150.6	152.3	140.3	443.3	659.3
Growth on pcp	+2.6%	+4.1%	+5.6%	+4.1%	+4.3%

Source: Company reports, Forsyth Barr analysis

Tracking in line with full year forecasts with important Christmas period to come

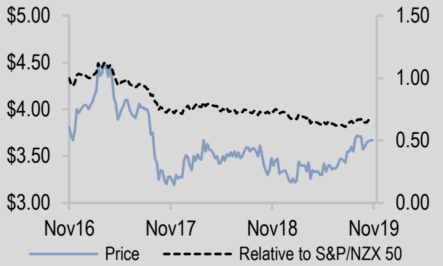
Year to date BGP is tracking largely in line with our full year estimates. Group sales for the nine months to 27 October increased +4.1% on the prior comparable period (FY20E +4.3%). Online sales continue to perform well, year to date up +20% on the prior period and now represent ~11% of group sales. On a divisional basis, the mix performance is margin positive with Rebel Sport outperforming relative to our expectations and Homeware slightly behind. We have not made any changes to our forecasts and note the importance of the Christmas period.

Investment View

BGP operates two chains which are market leaders in their respective segments. BGP is a strong operator, outperforming listed retail sector peers. There is risk the macro backdrop is less favourable going forward, albeit BGP remains well positioned in the market.

NZX Code	**BGP**
Share price	NZ$3.67
Issued shares	221.1m
Market cap	NZ$811m
Average daily turnover	22.2k (NZ$76k)

Share Price Performance



Financials: January	**19A**	**20E**	**21E**	**22E**
NPAT* (NZ$m)	63.4	64.9	65.0	62.8
EPS* (NZc)	28.7	29.2	29.2	28.3
EPS growth* (%)	1.5	2.0	0.0	-3.4
DPS (NZc)	20.0	21.0	22.0	23.0
Imputation (%)	100	100	100	100

Valuation (x)	**19A**	**20E**	**21E**	**22E**
EV/EBITDA	7.9	7.6	7.5	7.8
EV/EBIT	8.5	8.1	8.0	8.3
PE	12.8	12.6	12.5	13.0
Price / NTA	3.0	2.8	2.5	n/a
Cash dividend yield (%)	5.4	5.7	6.0	6.3
Gross dividend yield (%)	7.6	7.9	8.3	8.7

*Historic and forecast numbers based on underlying profits

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#Forsyth Barr RESEARCH INSIGHTS targets selected smaller cap stocks or those under transitional coverage and focuses on qualitative rather than quantitative assessments. We do not provide investment ratings or target prices on these stocks.

Briscoe Group Limited (BGP) Priced as at 04 Nov 2019: NZ$3.67 January year end

Research Insights

Forsyth Barr Research Insights focuses on qualitative rather than quantitative assessments of an equity investment.

We do not provide valuation, target prices or investment ratings for companies in the Research Insights series. It is targeted at selected smaller cap stocks with typically higher risk attributes, or those under transitional coverage.

Our earnings and cashflow forecasts, together with key valuation and ratios provided on this page should assist investors in determining the relative valuation merits of the company.

Profit and Loss Account (NZ$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	611	639	667	684	694
Normalised EBITDA	**90**	**93**	**95**	**95**	**92**
Depreciation and amortisation	(6)	(7)	(6)	(6)	(6)
Normalised EBIT	**83**	**86**	**89**	**89**	**86**
Net interest	0	1	1	1	1
Associate income	-	-	-	-	-
Tax	(22)	(23)	(25)	(25)	(24)
Minority interests	-	-	-	-	-
Normalised NPAT	**61**	**63**	**65**	**65**	**63**
Abnormals/other	-	-	-	-	-
Reported NPAT	**61**	**63**	**65**	**65**	**63**
Normalised EPS (cps)	28.2	28.7	29.2	29.2	28.3
DPS (cps)	19.0	20.0	21.0	22.0	23.0

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	3.6	4.5	4.4	2.6	1.3
EBITDA (%)	6.9	3.6	2.8	0.0	-3.2
EBIT (%)	7.1	3.2	3.7	-0.2	-3.7
Normalised NPAT (%)	8.2	3.4	2.4	0.0	-3.4
Normalised EPS (%)	8.2	1.5	2.0	0.0	-3.4
DPS (%)	5.6	5.3	5.0	4.8	4.5

Cash Flow (NZ$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	**90**	**93**	**95**	**95**	**92**
Working capital change	1	(3)	(0)	8	8
Interest & tax paid	(21)	(24)	(24)	(24)	(23)
Other	0	-	-	-	-
Operating cash flow	**70**	**66**	**71**	**79**	**77**
Capital expenditure	(14)	(22)	(9)	(9)	(9)
(Acquisitions)/divestments	0	5	-	-	-
Other	-	(6)	-	-	-
Funding available/(required)	**56**	**43**	**62**	**70**	**68**
Dividends paid	(41)	(43)	(47)	(49)	(51)
Equity raised/(returned)	-	2	-	-	-
Increase/(decrease) in net debt	**(15)**	**(3)**	**(15)**	**(21)**	**(17)**

Balance Sheet (NZ$m)	2018A	2019A	2020E	2021E	2022E
Working capital	(4)	0	8	8	8
Fixed assets	83	92	95	97	100
Intangibles	1	3	3	3	3
Other assets	98	105	105	105	105
Total funds employed	**179**	**200**	**210**	**213**	**216**
Net debt/(cash)	(77)	(80)	(96)	(117)	(134)
Other non current liabilities	8	8	8	8	8
Shareholder's funds	248	273	299	323	342
Minority interests	-	-	-	-	-
Total funding sources	**179**	**200**	**210**	**213**	**216**

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	8.3	7.9	7.6	7.5	7.8
EV/EBIT (x)	8.9	8.5	8.1	8.0	8.3
PE (x)	13.0	12.8	12.6	12.5	13.0
Price/NTA (x)	3.2	3.0	2.8	2.5	2.4
Free cash flow yield (%)	6.8	5.4	7.6	8.6	8.4
Net dividend yield (%)	5.2	5.4	5.7	6.0	6.3
Gross dividend yield (%)	7.2	7.6	7.9	8.3	8.7
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	67	70	72	75	81

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-45.9	-42.1	-47.5	-57.3	-64.9
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	24.6	23.6	23.3	21.8	20.0
Return on equity (%)	24.7	23.2	21.7	20.1	18.3
Return on funds employed (%)	38.6	34.7	32.4	31.3	29.7
EBITDA margin (%)	14.7	14.5	14.3	13.9	13.3
EBIT margin (%)	13.6	13.5	13.4	13.0	12.4
Capex to sales (%)	2.3	3.4	1.3	1.3	1.3
Capex to depreciation (%)	225	318	141	140	139

Operating Performance	2018A	2019A	2020E	2021E	2022E
Store numbers					
Briscoes Homeware	45	46	48	48	48
Living & Giving	2	2	2	2	2
Rebel Sport	37	39	40	40	40
Total store numbers	**84**	**87**	**90**	**90**	**90**
Divisional revenue (NZ$m)					
Homeware	385	403	419	430	436
Rebel Sport	220	229	240	247	249
Other	6	7	8	8	8
Total revenue	**611**	**639**	**667**	**684**	**694**
Gross profit (NZ$m)	242	253	263	267	269
Gross margins (%)					
Homeware	40	40	40	40	40
Rebel Sport	40	40	40	39	38
Group	**40**	**40**	**39**	**39**	**39**
Divisional EBIT (NZ$m)					
Homeware	46	47	49	49	48
Rebel Sport	30	31	33	32	30
Other	7	8	8	8	8
Total EBIT	**83**	**86**	**89**	**89**	**86**
EBIT Margins (%)					
Homeware	12.0	11.6	11.6	11.5	11.0
Rebel Sport	13.7	13.6	13.7	12.8	12.0
Group	**13.6**	**13.5**	**13.4**	**13.0**	**12.4**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Investment summary

Briscoe Group (BGP) has two dominant chains which are market leaders. The company has reported strong earnings growth over the past five years and is outperforming its peers. Looking forward, we expect a more modest growth outlook as the macro drivers weaken and the retail landscape becomes more competitive for discretionary retailers. BGP is trading around our view on fair value and valuation multiples for a retailer with a low to mid-single digit growth outlook.

Earnings and cash flow outlook

- **Steady earnings delivery:** BGP has a strong track record of steady earnings growth, achieved through a combination of tight margin and inventory management, reinvestment in new stores and the use of strong brands at competitive prices.
- **Store rollout:** BGP has incremental store opportunities for both its chains. There is also opportunity for continued refurbishment of existing stores.
- **KMD investment:** BGP has a 16.3% investment in KMD and receives dividend payments. KMD is trading materially ahead of BGP's average entry price.

Business quality

- **Competitive positioning — same-store sales:** BGP has market leading positions and is outperforming industry peers. Market growth has been helped by a buoyant housing market, and the mainstream sportswear fashion trend. There is risk the macro backdrop is less favourable in future.
- **Gross margins:** The NZDUSD is a key factor. BGP can help mitigate unfavourable impact through buying, inventory management, and pricing.

Financial structure

- **Balance sheet:** Net debt was NZ$81m (37cps) at FY19. Steady operating cash flow of NZ$65.7m.
- **Dividends:** BGP has an attractive and steadily growing dividend with a pay-out ratio of around 75%.

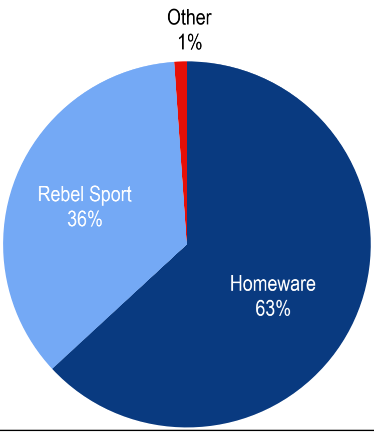
Risks factors

- **Consumer sentiment and retail backdrop:** Deterioration in economic conditions, the housing market and/or consumer confidence as well as pressure from online competition and increased wage costs.
- **Key person risk — Rod Duke:** BGP's CEO has been with the company since 1988 and has been an integral part of the company's success.

Company description

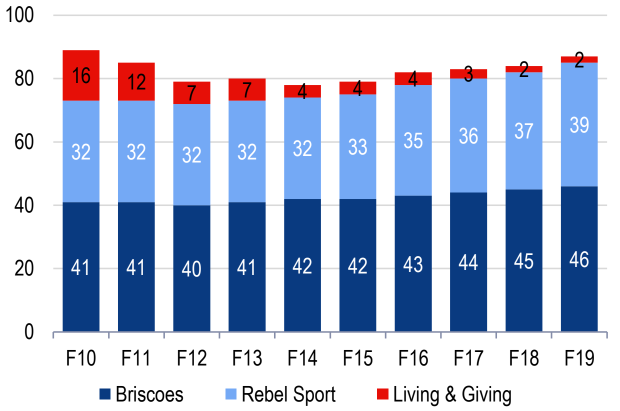
Briscoe Group is a major NZ listed retailer with two dominant "category killer" format chains, Briscoes Homeware and Rebel Sport. The company also has a small Living & Giving business. Briscoes Homeware has become an iconic New Zealand brand. It is a specialised retail chain, selling quality and competitively priced homeware to the New Zealand market. Rebel Sport is the largest sport equipment and apparel chain in New Zealand.

Figure 2. Divisional revenue breakdown (FY19)



Source: Forsyth Barr analysis, Company reports

Figure 3. Store footprint



Source: Forsyth Barr analysis, Company reports

Figure 4. Substantial Shareholders

Shareholder	Latest Holding
R A Duke Trust	77.8%

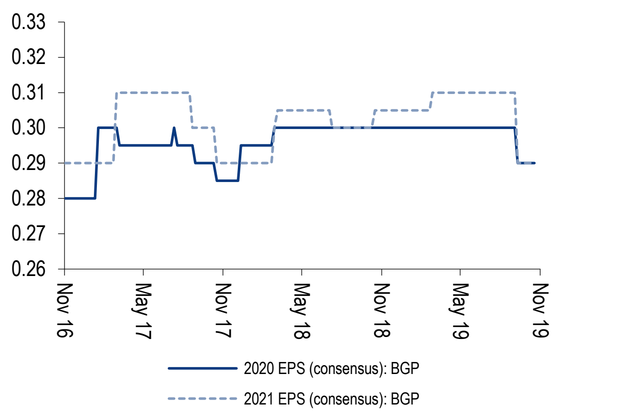
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International Compcos

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
(metrics re-weighted to reflect BGP's balance date - January)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Briscoe Group	**BGP NZ**	**NZ$3.67**	**NZ$811**	**12.6x**	**12.5x**	**7.7x**	**7.7x**	**8.2x**	**8.2x**	**6.0%**
Hallenstein Glasson Holdings	HLG NZ	NZ$6.25	NZ$369	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Kathmandu Holdings *	KMD NZ	NZ$3.12	NZ$919	12.0x	10.7x	8.1x	6.1x	9.6x	7.4x	5.8%
Michael Hill Intl *	MHJ NZ	A$0.73	A$283	10.6x	9.8x	5.1x	4.9x	7.7x	7.1x	7.2%
Restaurant Brands NZ *	RBD NZ	NZ$11.76	NZ$1,467	31.1x	27.2x	15.0x	13.8x	22.8x	20.5x	0.0%
The Warehouse Group *	WHS NZ	NZ$2.82	NZ$978	13.0x	11.9x	6.0x	5.6x	9.3x	8.6x	6.4%
Super Retail Group	SUL AT	A$9.45	A$1,867	12.8x	12.0x	6.9x	6.3x	10.0x	9.4x	5.4%
Harvey Norman Holdings	HVN AT	A$4.11	A$5,121	13.4x	14.1x	9.1x	8.9x	10.5x	10.4x	6.3%
Accent Group	AX1 AT	A$1.55	A$840	14.9x	14.1x	7.7x	7.1x	10.5x	9.6x	5.8%
			Compco Average:	**15.4x**	**14.3x**	**8.3x**	**7.5x**	**11.5x**	**10.4x**	**5.3%**
EV = Current Market Cap + Actual Net Debt			**BGP Relative:**	**-18%**	**-12%**	**-7%**	**+2%**	**-29%**	**-21%**	**+14%**

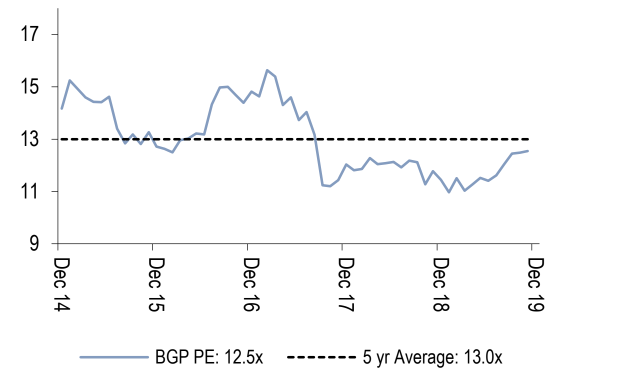
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (BGP) companies fiscal year end

Figure 6. Consensus EPS Momentum



Source: Forsyth Barr analysis

Figure 6. 12 Month Forward PE



Source: Forsyth Barr analysis