

Briscoe Group

RESEARCH INSIGHTS#

4Q20 Sales Takeaways

Briscoe Group (BGP) delivered another quarter of sales growth amid a difficult retail backdrop with commentary suggesting ongoing margin pressure. FY20 sales were slightly behind our expectations and as a result we have lowered our near-term forecasts. The retail environment remains tough given subdued consumer confidence and elevated competitive pressures; however, BGP has a strong track record and we expect it to continue to operationally outperform peers.

What's changed?

- **Earnings:** FY20 normalised NPAT lowered -5% to NZ\$61.7m

4Q20 — 13th consecutive quarters of sales growth

BGP announced 4Q20 sales of NZ\$210m, up +1.8% and slightly behind our expectations. Growth was driven by a good performance in its Sporting goods chain combined with additional store openings, with weakness in Homewares. Sales for FY20 were up +3.3% to NZ\$653m. FY20 same store sales growth for the group remains robust amid a tough retail environment, up +2.0%, albeit weighed down by a 4Q decline in the Homeware division.

Divisional detail — Rebel the stand out

- **Homeware:** Homeware disappointed relative to our expectations with quarterly same store sales falling -2.0%. Total store sales fell -0.7%, helped by an additional store, although was the first decline since 1Q12. On a full year basis Homeware sales increased +1.9%.
- **Sporting goods:** Sporting goods achieved quarterly same store sales growth of +2.7%, with total sales growth of +6.5% bolstered by two new store openings during 2H20. On a full year basis Rebel Sport grew sales +5.8%, slightly ahead of our expectations.
- **Online:** E-commerce FY20 sales increased +16% year on year and represented 11% of total group sales.

Margin pressure continues

Consistent with wider retail sector commentary, BGP experienced some pull through of December sales into the November Black Friday period. The event driven sales period placed additional pressure on gross margins. Gross margin contraction continues, although FY20 gross profit dollars are expected to be ahead of the prior year period.

Guidance includes one off gain

BGP has guided to FY20 NPAT of at least NZ\$64.0m on a like for like basis (pre-IFRS 16); however, this includes a one off gain of NZ\$2.7m, relating to rights entitlements not exercised in relation to Kathmandu's (KMD.NZ) capital raising. Adjusting for this, our FY20E normalised NPAT forecast is NZ\$61.7m. BGP is set to report FY20 earnings on 16 March.

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\$3.87
Issued shares	221.1m
Market cap	NZ\$856m
Avg daily turnover	22.5k (NZ\$79k)

Share Price Performance



Financials: Jan/	19A	20E	21E	22E
NPAT* (NZ\$m)	63.4	61.7	65.0	62.7
EPS* (NZc)	28.7	27.8	29.3	28.3
EPS growth* (%)	1.5	-3.1	5.3	-3.4
DPS (NZc)	20.0	20.0	22.0	23.0
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	8.4	8.5	8.0	8.2
EV/EBIT	9.0	9.1	8.5	8.9
PE	13.5	13.9	13.2	13.7
Price / NTA	3.2	2.9	2.7	n/a
Cash div yld (%)	5.2	5.2	5.7	5.9
Gross div yld (%)	7.2	7.2	7.9	8.3

*Historic/forecast numbers based on normalised profits

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Briscoe Group Limited (BGP)
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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	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	611	639	661	680	691	EV/EBITDA (x)	8.8	8.4	8.5	8.0	8.2
Normalised EBITDA	90	93	91	95	92	EV/EBIT (x)	9.4	9.0	9.1	8.5	8.9
Depreciation and amortisation	(6)	(7)	(6)	(6)	(6)	PE (x)	13.7	13.5	13.9	13.2	13.7
Normalised EBIT	83	86	85	89	86	Price/NTA (x)	3.4	3.2	2.9	2.7	2.5
Net interest	0	1	1	1	1	Free cash flow yield (%)	6.5	5.2	6.9	8.2	8.0
Associate income	-	-	-	-	-	Net dividend yield (%)	4.9	5.2	5.2	5.7	5.9
Tax	(22)	(23)	(24)	(25)	(24)	Gross dividend yield (%)	6.8	7.2	7.2	7.9	8.3
Minority interests	-	-	-	-	-						
Normalised NPAT	61	63	62	65	63	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	-	-	3	-	-	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	61	63	64	65	63	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)	28.2	28.7	27.8	29.3	28.3	Net debt/ND+E (%)	-45.9	-42.1	-47.1	-56.9	-64.4
DPS (cps)	19.0	20.0	20.0	22.0	23.0	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Growth Rates	2018A	2019A	2020A	2021A	2022A	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	3.6	4.5	3.4	3.0	1.7	Return on assets (%)	24.6	23.6	22.2	21.9	20.0
EBITDA (%)	6.9	3.6	-2.1	5.0	-3.3	Return on equity (%)	24.7	23.2	20.7	20.2	18.4
EBIT (%)	7.1	3.2	-1.5	5.2	-3.7	Return on funds employed (%)	38.6	34.7	30.8	31.3	29.7
Normalised NPAT (%)	8.2	3.4	-2.7	5.3	-3.4	EBITDA margin (%)	14.7	14.5	13.8	14.0	13.3
Normalised EPS (%)	8.2	1.5	-3.1	5.3	-3.4	EBIT margin (%)	13.6	13.5	12.8	13.1	12.4
Ordinary DPS (%)	5.6	5.3	0.0	10.0	4.5	Capex to sales (%)	2.3	3.4	1.3	1.3	1.3
						Capex to depreciation (%)	225	318	141	140	139
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	90	93	91	95	92	Pay-out ratio (%)	67	70	72	75	81
Working capital change	1	(3)	(0)	8	8						
Interest & tax paid	(21)	(24)	(23)	(24)	(23)	Operating Performance	2018A	2019A	2020E	2021E	2022E
Other	0	-	-	-	-	Divisional revenue (NZ\$m)					
Operating cash flow	70	66	68	79	77	Homeware	385	403	411	422	430
Capital expenditure	(14)	(22)	(9)	(9)	(9)	Rebel Sport	220	229	242	251	253
(Acquisitions)/divestments	0	5	-	-	-	Other	6	7	8	8	8
Other	-	(6)	-	-	-	Total revenue	611	639	661	680	691
Funding available/(required)	56	43	59	70	68	Gross profit (NZ\$m)	242	253	256	266	268
Dividends paid	(41)	(43)	(44)	(49)	(51)	Gross margins (%)					
Equity raised/(returned)	-	2	-	-	-	Homeware	40.0	40.2	39.1	40.0	39.8
(Increase)/decrease in net debt	15	3	14	21	17	Rebel Sport	39.9	39.9	39.5	38.7	38.2
						Group	39.6	39.7	38.8	39.1	38.7
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Divisional EBIT (NZ\$m)					
Working capital	(4)	0	8	8	8	Homeware	46	47	43	47	46
Fixed assets	83	92	95	97	100	Rebel Sport	30	31	34	34	32
Intangibles	1	3	3	3	3	Other	7	8	8	8	8
Right of use asset	-	-	-	-	-	Total EBIT	83	86	85	89	86
Other assets	98	105	105	105	105	EBIT Margins (%)					
Total funds employed	179	200	210	213	216	Homeware	12.0	11.6	10.4	11.2	10.7
Net debt/(cash)	(77)	(80)	(95)	(116)	(133)	Rebel Sport	13.7	13.6	14.2	13.5	12.5
Lease liability	-	-	-	-	-	Group	13.6	13.5	12.8	13.1	12.4
Other liabilities	8	8	8	8	8						
Shareholder's funds	248	273	298	322	341						
Minority interests	-	-	-	-	-						
Total funding sources	179	200	210	213	216						

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

4Q20 sales and earnings changes

Figure 1. Quarterly sales breakdown (NZ\$m)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Homeware								
Sales (NZ\$m)	88.2	98.5	84.0	132.5	90.7	100.8	87.9	131.5
% growth on pcp	1.9%	7.1%	3.3%	5.7%	2.9%	2.3%	4.7%	-0.7%
Same-store sales growth	-0.2%	4.4%	1.9%	6.1%	3.2%	2.3%	4.7%	-2.0%
Store numbers	47	47	47	47	47	47	47	47
Rebel Sport								
Sales (NZ\$m)	58.6	47.9	48.8	73.5	59.9	51.6	52.4	78.3
% growth on pcp	6.9%	0.4%	1.5%	6.0%	2.3%	7.6%	7.4%	6.5%
Same-store sales growth	5.5%	-0.3%	0.6%	3.4%	0.4%	5.6%	3.2%	2.7%
Store numbers	37	37	37	37	39	39	40	41
Group								
Total sales	146.8	146.4	132.8	206.0	150.6	152.3	140.3	209.7
Growth on pcp	3.9%	4.8%	2.6%	5.8%	2.6%	4.1%	5.6%	1.8%

Source: Forsyth Barr analysis

Earnings changes

Following slightly weaker than expected full year sales and commentary suggesting gross margin contraction, we lower our FY20E earnings estimates. In our normalised NPAT forecast, we adjust for the one off gain of NZ\$2.7m, relating to rights entitlements not exercised in relation to Kathmandu's (KMD.NZ) capital raising. We have made no major changes to earnings in future forecast years.

Impacting the reporting in the current period will be the adoption of IFRS 16 treatment of leases, which is expected to have a (coincidentally) -NZ\$2.7m impact on reported FY20E NPAT. Our forecasts are presented here on a pre-IFRS basis.

Figure 2. Earnings revisions (NZ\$m)*

	FY20E			FY21E			FY22E		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	666.9	660.5	-1.0%	684.5	680.2	-0.6%	693.6	691.4	-0.3%
EBIT	89.2	84.7	-5.1%	89.0	89.1	-	85.8	85.8	-
Normalised NPAT	64.9	61.7	-5.0%	65.0	65.0	-	62.8	62.7	-
EPS (cps)	29.2	27.8	-5.0%	29.2	29.3	-	28.3	28.3	-
DPS (cps)	21.0	20.0	-4.8%	22.0	22.0	-	23.0	23.0	-

Source: Forsyth Barr analysis, *Forecasts remain on a pre-IFRS 16 basis

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.

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.

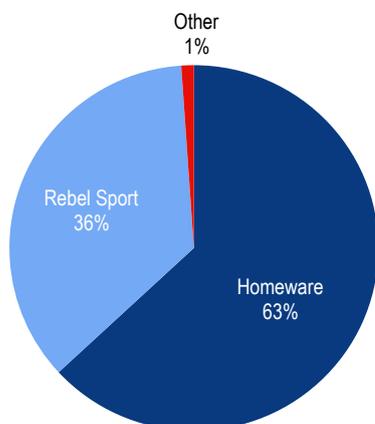
Financial structure

- **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

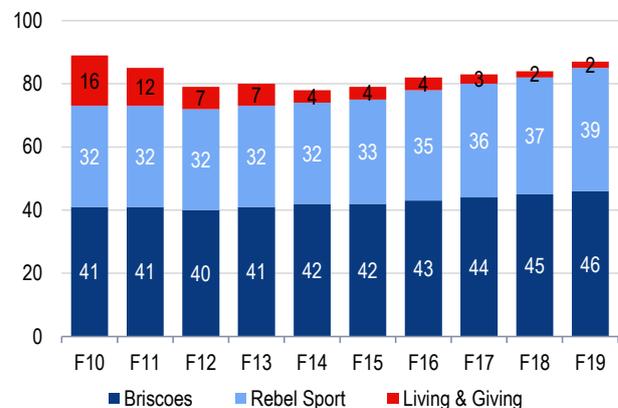
- **Consumer sentiment and retail backdrop:** Deterioration in economic conditions, the housing market and/or consumer confidence as well as pressure from online competition and increased wage costs.
- **Key person risk — Rod Duke:** BGP's CEO has been with the company since 1988 and has been an integral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

Figure 3. Divisional revenue breakdown (FY19)



Source: Forsyth Barr analysis, Company reports

Figure 4. Store footprint



Source: Forsyth Barr analysis, Company reports

Figure 5. Substantial Shareholders

Shareholder	Latest Holding
R A Duke Trust	77.8%

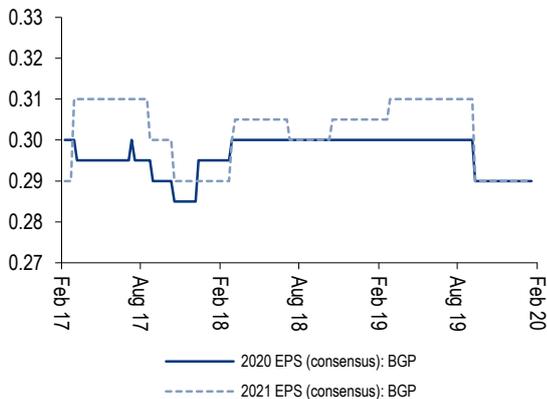
Source: NZX, Forsyth Barr analysis. NOTE: based on SSH notices only

Figure 6. International Compcos

Company	Code	Price	Mkt Cap	PE	EV/EBITDA	EV/EBIT	Cash D/Yld
<i>(metrics re-weighted to reflect BGP's balance date - January)</i>				2020E	2021E	2020E	2021E
				(m)			
Briscoe Group	BGP NZ	NZ\$3.87	NZ\$856	13.9x	13.2x	8.5x	8.1x
Kathmandu Holdings *	KMD NZ	NZ\$2.99	NZ\$882	11.5x	10.2x	7.8x	5.9x
Michael Hill Intl *	MHJ NZ	A\$0.66	A\$256	9.6x	8.9x	4.7x	4.4x
Restaurant Brands NZ *	RBD NZ	NZ\$13.35	NZ\$1,666	35.6x	29.1x	17.3x	14.3x
The Warehouse Group *	WHS NZ	NZ\$2.68	NZ\$930	12.3x	11.3x	5.8x	5.4x
Super Retail Group	SUL AT	A\$9.38	A\$1,853	13.2x	12.5x	7.0x	6.7x
Harvey Norman Holdings	HVN AT	A\$4.23	A\$5,271	13.8x	14.5x	9.4x	9.3x
Accent Group	AX1 AT	A\$1.70	A\$919	16.5x	15.5x	8.4x	7.7x
Compc Average:				16.1x	14.6x	8.6x	7.7x
BGP Relative:				-13%	-9%	-1%	+6%
<i>EV = Current Market Cap + Actual Net Debt</i>							
						12.0x	10.6x
							5.3%

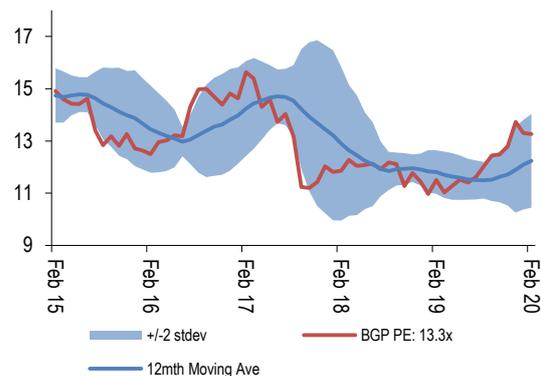
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcos metrics re-weighted to reflect headline (BGP) companies fiscal year end

Figure 7. Consensus EPS Momentum



Source: Forsyth Barr analysis

Figure 8. 12 Month Forward PE



Source: Forsyth Barr analysis

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