

Briscoe Group

2Q21 Sales Checkout

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RESEARCH INSIGHTS

Briscoe Group (BGP) delivered outstanding 2Q21 sales as activity surged following shifts to lower alert levels. The strong quarter resulted in group sales finishing 1H20 down only -3.5% on the prior comparable period, despite seven weeks of store closures. Notwithstanding the strong recovery in sales, we keep a high level of caution over the medium-term outlook, in particular as wage subsidies roll off and the economic realities of COVID-19 become clearer. However, we view BGP as relatively well placed to weather any near-term turbulence, with a solid track record and a robust balance sheet position.

NZX Code	BGP	Financials: Jan/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.42	NPAT* (NZ\$m)	62.6	57.3	55.9	61.0	EV/EBITDA	6.5	5.9	5.5	5.2
Issued shares	221.1m	EPS* (NZc)	28.3	25.9	25.3	27.6	EV/EBIT	7.0	7.5	7.3	6.7
Market cap	NZ\$756m	EPS growth* (%)	-1.3	-8.5	-2.4	9.2	PE	12.1	13.2	13.5	12.4
Avg daily turnover	31.7k (NZ\$106k)	DPS (NZc)	21.0	10.0	20.5	24.0	Price / NTA	2.5	2.1	2.0	1.9
		Imputation (%)	100	100	100	100	Cash div yld (%)	6.1	2.9	6.0	7.0
		*Based on normalised profits					Gross div yld (%)	8.5	4.1	8.3	9.7

Quarterly sales surge

2Q21 group sales jumped +28% on the prior comparable period, with sales increasing +38% in the period since stores re-opened at Alert Level 2 (14 May). The record quarterly result was likely driven in part by pent-up demand and category exposure. The sales recovery was fairly broad across the business segments, with Homeware reporting a +26% increase in total sales against the prior comparable period, while Sporting goods saw a +33% jump. The strong result has effectively offset a lockdown impacted first quarter, with group sales ending 1H20 down -3.5%.

The online channel was a standout in 2Q21, with sales more than doubling in the quarter, taking total online penetration to 22% for 1H20. Whilst online activity was, in part, driven by bricks & mortar closures, penetration has remained elevated following the move to Alert Level 2 at 16% (1H19 online penetration ~11%).

The near-term outlook remains uncertain

Despite a surge in retail activity, we retain a high level of caution over the near-term outlook. A mixture of pent-up demand, wage subsidies, and travel restrictions likely supported consumer spend through the period. However, as government support packages roll off and the economic realities of lockdown policies become clearer, we expect growth to moderate.

Reversing earlier downgrades

We have made material upgrades to our forecasts following the strong 2Q21, effectively reversing the majority of our earlier COVID-19 related downgrades. BGP recently updated guidance commentary, indicating a 1H20 NPAT result close to that achieved in the prior comparable period (~NZ\$29m), a material upgrade from earlier guidance of a modest profit. BGP is expected to release its 1H20 results to the market on 8 September 2020.

Briscoe Group Limited (BGP)

Priced as at 31 Jul 2020 (NZ\$)

3.42
Research Insights

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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)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	638.9	662.7	675.8	684.2	708.3	EV/EBITDA (x)	7.3	6.5	5.9	5.5	5.2
Normalised EBITDA	92.8	104.7	112.9	118.0	125.5	EV/EBIT (x)	7.9	7.0	7.5	7.3	6.7
Depreciation and amortisation	(6.8)	(27.4)	(23.2)	(28.2)	(28.7)	PE (x)	11.9	12.1	13.2	13.5	12.4
Normalised EBIT	86.0	97.2	89.8	89.8	96.8	Price/NTA (x)	2.8	2.5	2.1	2.0	1.9
Net interest	0.6	(12.9)	(10.2)	(12.2)	(12.0)	Free cash flow yield (%)	5.8	8.0	9.5	10.0	11.3
Associate income	0	0	0	0	0	Net dividend yield (%)	5.8	6.1	2.9	6.0	7.0
Tax	(23.2)	(21.7)	(22.3)	(21.7)	(23.7)	Gross dividend yield (%)	8.1	8.5	4.1	8.3	9.7
Minority interests	0	0	0	0	0	Capital Structure	2019A	2020A	2021E	2022E	2023E
Normalised NPAT	63.4	62.6	57.3	55.9	61.0	Interest cover EBIT (x)	n/a	7.5	8.8	7.4	8.1
Abnormals/other	0	2.7	0	0	0	Interest cover EBITDA (x)	n/a	8.1	11.1	9.7	10.5
Reported NPAT	63.4	65.3	57.3	55.9	61.0	Net debt/ND+E (%)	-42.1	-27.6	-40.8	-45.2	-50.8
Normalised EPS (cps)	28.7	28.3	25.9	25.3	27.6	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	20.0	21.0	10.0	20.5	24.0	Key Ratios	2019A	2020A	2021E	2022E	2023E
Growth Rates	2019A	2020A	2021E	2022E	2023E	Return on assets (%)	23.6	14.0	12.2	11.8	12.4
Revenue (%)	4.5	3.7	2.0	1.2	3.5	Return on equity (%)	23.2	20.1	16.1	14.8	15.4
EBITDA (%)	3.6	12.9	7.8	4.5	6.4	Return on funds employed (%)	34.7	34.6	27.1	26.5	27.9
EBIT (%)	3.2	13.1	-7.7	0.0	7.8	EBITDA margin (%)	14.5	15.8	16.7	17.2	17.7
Normalised NPAT (%)	3.4	-1.3	-8.5	-2.4	9.2	EBIT margin (%)	13.5	14.7	13.3	13.1	13.7
Normalised EPS (%)	1.5	-1.3	-8.5	-2.4	9.2	Capex to sales (%)	3.4	2.9	2.5	2.2	1.6
Ordinary DPS (%)	5.3	5.0	-52.4	>100	17.1	Capex to depreciation (%)	318	70	74	54	39
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	100	100	100	100	100
EBITDA	92.8	104.7	112.9	118.0	125.5	Pay-out ratio (%)	70	74	39	81	87
Working capital change	(3.4)	8.8	8.5	7.0	6.9	Operating Performance	2019A	2020A	2021E	2022E	2023E
Interest & tax paid	(23.6)	(36.9)	(32.5)	(33.9)	(35.7)	Divisional revenue (NZ\$m)					
Other	0	2.8	0	0	0	Homeware	403	411	420	421	436
Operating cash flow	65.7	79.5	89.0	91.1	96.7	Rebel Sport	229	242	249	256	265
Capital expenditure	(21.6)	(19.2)	(17.2)	(15.3)	(11.3)	Other	7	10	7	7	7
(Acquisitions)/divestments	(0.7)	(13.6)	0	0	0	Total revenue	639	663	676	684	708
Other	0	(16.3)	(13.9)	(16.2)	(16.2)	Gross profit (NZ\$m)	253	258	246	262	271
Funding available/(required)	43.5	30.5	57.8	59.7	69.2	Gross margins (%)					
Dividends paid	(43.1)	(45.5)	(22.1)	(45.3)	(53.1)	Homeware	40.2	39.5	37.0	39.0	39.0
Equity raised/(returned)	2.2	1.6	0	0	0	Rebel Sport	39.9	39.3	36.5	38.0	38.0
(Increase)/decrease in net debt	2.6	(13.4)	35.7	14.3	16.2	Group	39.7	38.9	36.4	38.2	38.2
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Divisional EBIT (NZ\$m)					
Working capital	0.1	9.7	8.2	8.3	8.6	Homeware	47	49	51	51	52
Fixed assets	92.0	97.3	107.3	114.3	116.8	Rebel Sport	31	36	37	37	39
Intangibles	2.5	3.5	3.5	3.5	3.5	Other	8	11	2	2	6
Right of use asset	0	266.0	266.0	266.0	266.0	Total EBIT	86	97	90	90	97
Other assets	105.4	171.2	171.2	171.2	171.2	EBIT Margins (%)					
Total funds employed	200.0	547.6	556.1	563.2	566.0	Homeware	11.6	12.0	12.2	12.1	12.0
Net debt/(cash)	(80.3)	(66.4)	(102.1)	(116.5)	(132.6)	Rebel Sport	13.6	15.1	14.8	14.5	14.7
Lease liability	0	296.4	296.4	296.4	296.4	Group	13.5	14.7	13.3	13.1	13.7
Other liabilities	7.6	5.7	5.7	5.7	5.7						
Shareholder's funds	272.7	311.9	356.0	377.5	396.4						
Minority interests	0	0	0	0	0						
Total funding sources	200.0	547.6	556.1	563.2	566.0						

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

Earnings changes

We have made significant upgrades to our near-term outlook, largely reversing earlier revisions as sales surged following moves to lower alert levels.

We materially lift our FY21E revenue assumptions on the back of an outstanding 2Q21 result, effectively offsetting the seven weeks of store closures. In addition, we increase our gross margin assumption given lower levels of discounting activity than previously expected. Although we lift our earnings forecasts in FY22E and FY23E we retain a level of caution of the medium-term outlook, with a large level of economic uncertainty, particularly as wage subsidies and mortgage holidays roll off in September.

Figure 1. Earnings changes (NZ\$m)

	FY21E			FY22E			FY23E		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	571.5	675.8	18.2%	658.4	684.2	3.9%	685.7	708.3	3.3%
EBIT	51.4	89.8	74.6%	80.9	89.8	11.0%	89.2	96.8	8.5%
NPAT	29.6	57.3	93.6%	49.3	55.9	13.3%	55.4	61.0	10.2%
EPS (cps)	13.4	25.9	93.6%	22.3	25.3	13.3%	25.0	27.6	10.2%
DPS (cps)	7.0	10.0	42.9%	18.5	20.5	10.8%	22.0	24.0	9.1%

Source: Forsyth Barr analysis

Investment Summary

Briscoe Group (BGP) has two dominant chains which are market leaders. The company has reported robust earnings growth over recent years and has a solid track record of outperforming peers. The outlook for the retail sector is opaque. Sales have surged as consumers emerged from higher alert levels. However, as wage subsidies roll off and the economic backdrop deteriorates we remain cautious over medium-term sales growth. The company's strong track record and healthy balance sheet make it well positioned to weather short term turbulence. BGP is trading around our view of fair value given short term earnings risk.

Business quality

- **Competitive positioning same-store sales:** BGP has market leading positions and a track record of outperforming industry peers. Recent growth has been helped by a buoyant housing market and the mainstream sportswear fashion trend. However, the outlook appears turbulent as retailers navigate lockdowns and the deteriorating economic backdrop.
- **Gross margins:** The NZDUSD is a key factor. BGP can help mitigate unfavourable impact through buying, inventory management, and pricing. Margin pressure is likely in the near-term with retailers looking to clear unsold inventory.

Earnings and cashflow 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 amalgamation:** BGP has achieved operating efficiencies by amalgamating its two chains into single footprint sites. There is also opportunity for continued refurbishment of existing stores.
- **KMD investment:** BGP has a 6.7% investment in KMD and receives dividend payments.

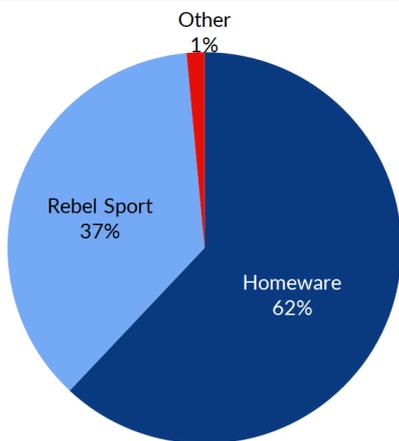
Financial structure

- **Balance sheet:** Strong balance sheet position with net cash was NZ\$67m (30cps) at FY20. Steady operating cash flow of NZ \$79.5m helps support further store investment.
- **Dividends:** BGP has an attractive and steadily growing dividend with a pay-out ratio of around 75%.

Risk factors

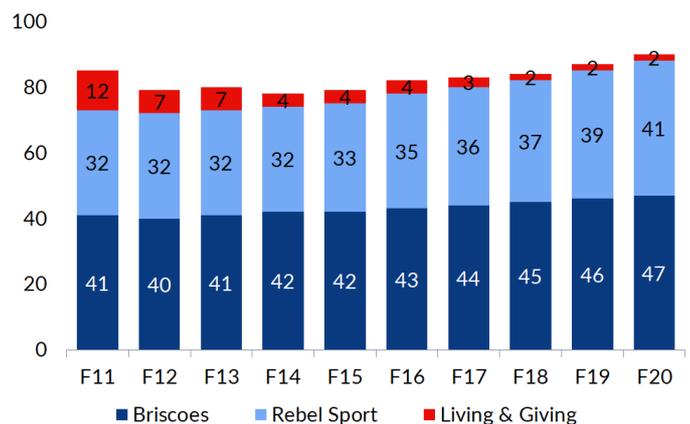
- **Consumer sentiment and retail backdrop:** Deterioration in economic conditions, the housing market and/or consumer confidence as well as pressure from online competition and increased wage costs.
- **Key person risk Rod Duke:** BGP's CEO has been with the company since 1988 and has been an integral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

Figure 2. Divisional revenue breakdown (FY20)



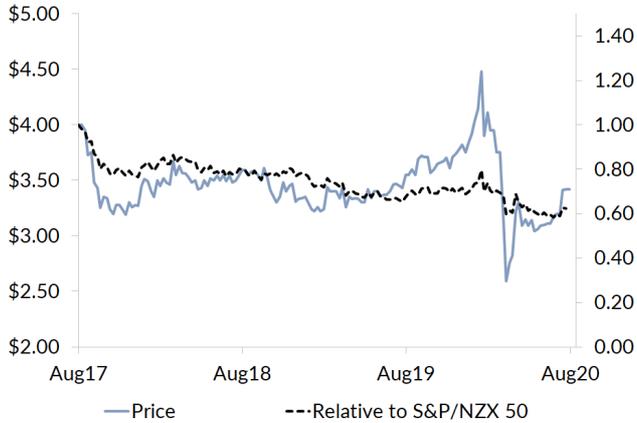
Source: Company reports, Forsyth Barr analysis

Figure 3. Store footprint



Source: Company reports, Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
R A Duke Trust	77.8%

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

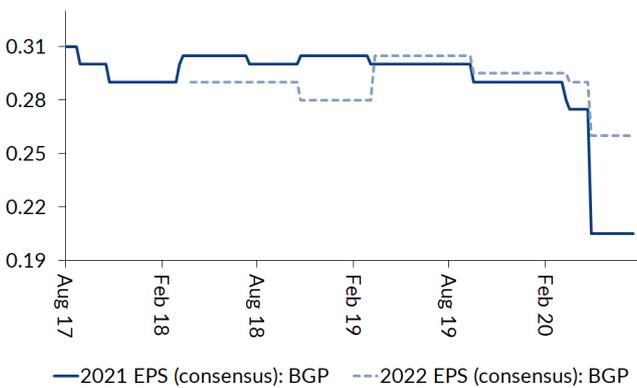
Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect BGP's balance date - January)										
Briscoe Group	BGP NZ	NZ\$3.42	NZ\$756	13.2x	13.5x	6.1x	5.8x	7.7x	7.7x	6.0%
THE WAREHOUSE GROUP *	WHS NZ	NZ\$2.06	NZ\$714	15.0x	15.7x	5.8x	5.9x	10.7x	11.1x	4.9%
SUPER RETAIL GROUP	SUL AT	A\$8.11	A\$1,831	12.5x	12.1x	7.6x	7.2x	13.1x	12.4x	5.5%
HARVEY NORMAN HOLDINGS	HVN AT	A\$3.59	A\$4,473	11.8x	12.4x	8.2x	8.3x	10.5x	11.0x	6.3%
KATHMANDU HOLDINGS *	KMD NZ	NZ\$1.16	NZ\$822	17.4x	14.6x	10.4x	7.5x	15.5x	10.4x	4.3%
MICHAEL HILL INTL *	MHJ NZ	A\$0.34	A\$132	22.9x	21.6x	4.8x	4.9x	13.9x	13.2x	6.6%
Compc Average:				15.9x	15.3x	7.4x	6.8x	12.8x	11.6x	5.5%
BGP Relative:				-17%	-11%	-17%	-14%	-40%	-34%	9%

EV = Current Market Cap + Actual Net Debt

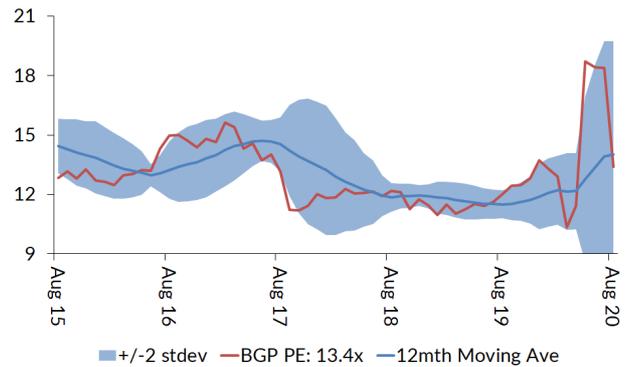
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compc metrics re-weighted to reflect headline (BGP) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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