

# Briscoe Group

## 1H21 – A Game of Two Halves

**GUY HOOPER**

 guy.hooper@forsythbarr.co.nz  
 +64 4 495 5255

### RESEARCH INSIGHTS

Briscoe Group (BGP) delivered an impressive 1H21 result, marginally behind the prior year, despite an extended period of temporary store closures. A surge in retail activity following a shift to lower alert levels, offset a heavily restricted 1Q21 operating environment. Recent trading commentary suggests BGP has maintained momentum into 2H21, trading ahead of the prior year period despite higher alert levels in Auckland. COVID-19 related restrictions remain fluid creating additional near-term uncertainty, however, we have been encouraged by BGP's ability to navigate the challenging conditions to date. We view BGP as well placed to navigate possible near-term turbulence, with a solid track record and a robust balance sheet.

NZX Code	BGP	Financials: Jan/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.84	NPAT* (NZ\$m)	62.6	64.7	58.2	62.6	PE	13.6	13.1	14.6	13.6
Issued shares	221.1m	EPS* (NZc)	28.3	29.2	26.3	28.3	EV/EBIT	8.0	7.6	8.2	7.7
Market cap	NZ\$849m	EPS growth* (%)	-1.3	3.3	-9.9	7.6	EV/EBITDA	7.4	6.1	6.3	6.0
Avg daily turnover	31.5k (NZ\$105k)	DPS (NZc)	21.0	21.0	21.5	24.5	Price / NTA	2.8	2.5	2.4	2.3
		Imputation (%)	100	100	100	100	Cash div yld (%)	5.5	5.5	5.6	6.4
		*Based on normalised profits					Gross div yld (%)	7.6	7.6	7.8	8.9

#### Headline results understate the bifurcated nature of 1H21

BGP reported 1H21 NPAT of NZ\$28.0m, -1.3% below the prior year period, but it was tale of two quarters. 1Q21 sales fell -36% against the prior year period with stores closed for 50 days. Pent-up demand, favourable category exposure, and well run promotional activity enabled a strong recovery in 2Q21, with sales up +28% on the prior year period. Gross margin expansion (1H21 gross margin 42.2%, 1H20 40.6%) was achieved on the back of lower discounting activity and improved inventory management. From a divisional perspective, performance was fairly broad based across Homeware and Rebel.

The online channel was a highlight in the period with sales doubling, accounting for 22% of total sales (1H20 11%). The roll-out of 'Click and Collect' across all stores prior to the outbreak of COVID-19 proved to be good timing. In August 2020 'Click and Collect' accounted for over 30% of all online sales. Since shifting to Alert Level two (store doors open) in May 2020, online sales penetration moderated to 16% for the remainder of 1H21.

#### Balance sheet well positioned

Strong operating cash flow and a release of working capital drove an uplift in BGP's net cash position, up +77% to NZ\$0.45 per share. Its strong balance sheet position provides flexibility to carry out strategic initiatives, capacity to continue store developments, and possibly explore acquisitive growth. BGP announced a fully imputed interim dividend of 9.0cps (1H20 8.5cps).

#### Momentum continues into 2H20 but uncertainty remains elevated

BGP did not provide any formal guidance given the uncertain backdrop; however, trading commentary suggests gross profit dollar and margin was tracking ahead of the prior year period in August, despite two weeks of Auckland store closures. Auckland's recent reversion to Alert Level 3 highlighted the ongoing risk of further periods of trading restrictions. All given, we are encouraged by BGP's recent performance and make positive earnings changes, though note high levels of uncertainty created from the fluid operating environment and weaker economic backdrop.

**Briscoe Group Limited (BGP)**

Priced as at 08 Sep 2020 (NZ\$)

3.84

**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)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	638.9	662.7	679.1	687.6	711.9	EV/EBITDA (x)	8.3	7.4	6.1	6.3	6.0
<b>Normalised EBITDA</b>	<b>92.8</b>	<b>104.7</b>	<b>127.3</b>	<b>121.4</b>	<b>127.9</b>	EV/EBIT (x)	8.9	8.0	7.6	8.2	7.7
Depreciation and amortisation	(6.8)	(27.4)	(25.8)	(28.2)	(28.7)	PE (x)	13.4	13.6	13.1	14.6	13.6
<b>Normalised EBIT</b>	<b>86.0</b>	<b>97.2</b>	<b>101.5</b>	<b>93.2</b>	<b>99.2</b>	Price/NTA (x)	3.1	2.8	2.5	2.4	2.3
Net interest	0.6	(12.9)	(11.7)	(12.4)	(12.2)	Free cash flow yield (%)	5.2	7.1	9.6	9.2	10.2
Associate income	0	0	0	0	0	Net dividend yield (%)	5.2	5.5	5.5	5.6	6.4
Tax	(23.2)	(21.7)	(25.1)	(22.6)	(24.4)	Gross dividend yield (%)	7.2	7.6	7.6	7.8	8.9
Minority interests	0	0	0	0	0	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Normalised NPAT</b>	<b>63.4</b>	<b>62.6</b>	<b>64.7</b>	<b>58.2</b>	<b>62.6</b>	Interest cover EBIT (x)	n/a	7.5	8.7	7.5	8.1
Abnormals/other	0	2.7	0	0	0	Interest cover EBITDA (x)	n/a	8.1	10.9	9.8	10.5
<b>Reported NPAT</b>	<b>63.4</b>	<b>65.3</b>	<b>64.7</b>	<b>58.2</b>	<b>62.6</b>	Net debt/ND+E (%)	-42.1	-27.6	-34.0	-38.6	-44.6
Normalised EPS (cps)	28.7	28.3	29.2	26.3	28.3	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	20.0	21.0	21.0	21.5	24.5	<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	Return on assets (%)	23.6	14.0	14.1	12.6	13.0
Revenue (%)	4.5	3.7	2.5	1.2	3.5	Return on equity (%)	23.2	20.1	19.1	16.1	16.5
EBITDA (%)	3.6	12.9	21.6	-4.6	5.3	Return on funds employed (%)	34.7	34.6	30.7	27.5	28.6
EBIT (%)	3.2	13.1	4.4	-8.1	6.4	EBITDA margin (%)	14.5	15.8	18.7	17.7	18.0
Normalised NPAT (%)	3.4	-1.3	3.3	-9.9	7.6	EBIT margin (%)	13.5	14.7	14.9	13.6	13.9
Normalised EPS (%)	1.5	-1.3	3.3	-9.9	7.6	Capex to sales (%)	3.4	2.9	2.5	2.2	1.6
Ordinary DPS (%)	5.3	5.0	0.0	2.4	14.0	Capex to depreciation (%)	318	70	67	54	39
<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	Imputation (%)	100	100	100	100	100
<b>EBITDA</b>	<b>92.8</b>	<b>104.7</b>	<b>127.3</b>	<b>121.4</b>	<b>127.9</b>	Pay-out ratio (%)	70	74	72	82	86
Working capital change	(3.4)	8.8	8.5	7.0	6.9	<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Interest & tax paid	(23.6)	(36.9)	(36.8)	(35.0)	(36.5)	<b>Divisional revenue (NZ\$m)</b>					
Other	0	2.8	0	0	0	Homeware	403	411	422	424	438
<b>Operating cash flow</b>	<b>65.7</b>	<b>79.5</b>	<b>99.0</b>	<b>93.4</b>	<b>98.3</b>	Rebel Sport	229	242	251	257	266
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	<b>Total revenue</b>	<b>639</b>	<b>663</b>	<b>679</b>	<b>688</b>	<b>712</b>
Other	0	(16.3)	(16.7)	(16.2)	(16.2)	<b>Gross profit (NZ\$m)</b>	<b>253</b>	<b>258</b>	<b>258</b>	<b>263</b>	<b>272</b>
<b>Funding available/(required)</b>	<b>43.5</b>	<b>30.5</b>	<b>65.0</b>	<b>62.0</b>	<b>70.8</b>	<b>Gross margins (%)</b>					
Dividends paid	(43.1)	(45.5)	(46.4)	(47.5)	(54.2)	Homeware	40.2	39.5	38.0	39.0	39.0
Equity raised/(returned)	2.2	1.6	0	0	0	Rebel Sport	39.9	39.3	39.0	38.0	38.0
<b>(Increase)/decrease in net debt</b>	<b>2.6</b>	<b>(13.4)</b>	<b>18.6</b>	<b>14.5</b>	<b>16.7</b>	<b>Group</b>	<b>39.7</b>	<b>38.9</b>	<b>38.0</b>	<b>38.2</b>	<b>38.2</b>
<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Divisional EBIT (NZ\$m)</b>					
Working capital	0.1	9.7	8.2	8.3	8.6	Homeware	47	49	56	53	54
Fixed assets	92.0	97.3	107.3	114.3	116.8	Rebel Sport	31	36	44	39	40
Intangibles	2.5	3.5	3.5	3.5	3.5	Other	8	11	2	1	6
Right of use asset	0	266.0	266.0	266.0	266.0	<b>Total EBIT</b>	<b>86</b>	<b>97</b>	<b>101</b>	<b>93</b>	<b>99</b>
Other assets	105.4	171.2	171.2	171.2	171.2	<b>EBIT Margins (%)</b>					
<b>Total funds employed</b>	<b>200.0</b>	<b>547.6</b>	<b>556.1</b>	<b>563.2</b>	<b>566.0</b>	Homeware	11.6	12.0	13.4	12.5	12.3
Net debt/(cash)	(80.3)	(66.4)	(85.0)	(99.5)	(116.1)	Rebel Sport	13.6	15.1	17.4	15.1	15.0
Lease liability	0	296.4	296.4	296.4	296.4	<b>Group</b>	<b>13.5</b>	<b>14.7</b>	<b>14.9</b>	<b>13.6</b>	<b>13.9</b>
Other liabilities	7.6	5.7	5.7	5.7	5.7						
Shareholder's funds	272.7	311.9	339.0	360.5	380.0						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>200.0</b>	<b>547.6</b>	<b>556.1</b>	<b>563.2</b>	<b>566.0</b>						

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

## 1H21 result summary

Figure 1. 1H21 result breakdown (NZ\$m)

	1H20	1H21	% chg	Comments
Sales Revenue	303.0	292.4	-3.5%	1Q21 sales fell -36% vs pcp, 2Q21 increased +28% vs pcp
<b>Gross Profit</b>	<b>122.9</b>	<b>123.3</b>	<b>+0.3%</b>	Margin improvement offset by lower sales
Gross Margin	40.6%	42.2%	1.6ppts	Gross margin improvement on the back of lower discounting activity
<b>Normalised EBIT</b>	<b>45.7</b>	<b>45.9</b>	<b>+0.6%</b>	Wage subsidy NZ\$11.5m
<b>Normalised Profit</b>	<b>28.3</b>	<b>28.0</b>	<b>-1.3%</b>	Increased administration expenses
Reported Profit	28.3	28.0	-1.3%	
Underlying EPS (cps)	12.8	12.6	-1.3%	
<b>Interim DPS (cps)</b>	<b>8.5</b>	<b>9.0</b>	<b>+5.9%</b>	
<b>Divisional detail (NZ\$m)</b>				
<b>Homeware</b>				
Sales	191.5	184.3	-3.7%	Sales improvement broad based (a decline in luggage the exception)
EBIT	26.2	28.1	+7.0%	
EBIT Margin	13.7%	15.2%	1.5ppts	
<b>Rebel Sport</b>				
Sales	111.5	108.1	-3.1%	Particularly strong 2Q21 rebound, up +33% vs pcp
EBIT	17.4	16.9	-3.1%	
EBIT Margin	15.6%	15.6%	0.0ppts	
<b>Balance Sheet/Cashflow</b>				
Inventory	88.8	86.7	-2.4%	Improved inventory management despite three additional stores
Working Capital	16.7	2.2	-87.1%	Increase in accounts payable
Net Debt	(55.5)	(98.6)	+77.5%	Strong operating cashflows and working capital release
Operating Cashflow	19.9	48.8	+145.5%	Improved margin and NZ\$11.5m wage subsidy

Source: Company reports, Forsyth Barr analysis

## Earnings changes

We lift our FY21 earnings assumptions and now forecast a result ahead of the prior year period, reflecting a strong 1H20 and recent trading commentary. We expect BGP to benefit from category exposure as consumers spend on "nesting" (improving the home), but retain a level of caution around near-term activity as 1) the economic realities of higher alert levels become clearer, and 2) the possibility of a spending pull forward in the home category. At this stage we expect to see a decline in activity in FY22, however, note the current operating environment is uncertain and fluid, lending to volatility in our near-term assumptions.

Figure 2. Earnings changes (NZ\$m)

	FY21			FY22			FY23		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	675.8	679.1	0.5%	684.2	687.6	0.5%	708.3	711.9	0.5%
EBIT	89.8	101.5	13.1%	89.8	93.2	3.8%	96.8	99.2	2.5%
<b>NPAT</b>	<b>57.3</b>	<b>64.7</b>	<b>12.9%</b>	<b>55.9</b>	<b>58.2</b>	<b>4.2%</b>	<b>61.0</b>	<b>62.6</b>	<b>2.6%</b>
EPS (cps)	25.9	29.2	12.9%	25.3	26.3	4.2%	27.6	28.3	2.6%
DPS (cps)	10.0	21.0	110.0%	20.5	21.5	4.9%	24.0	24.5	2.1%

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.

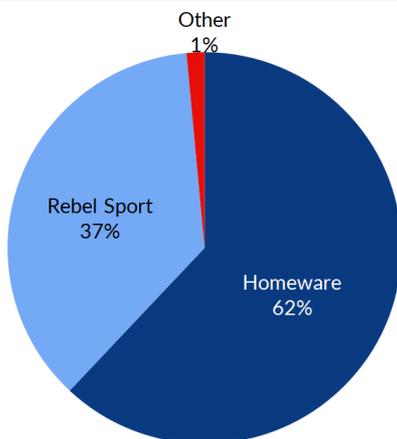
### Financial structure

- **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

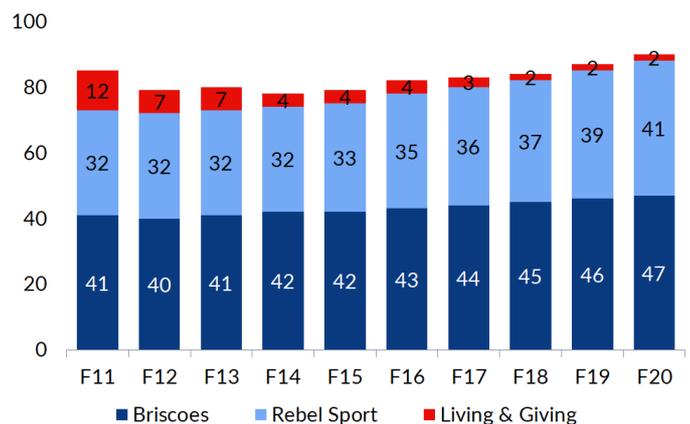
- **Consumer sentiment and retail backdrop:** Deterioration in economic conditions, the housing market and/or consumer confidence as well as pressure from online competition and increased wage costs.
- **Key person risk Rod Duke:** BGP's CEO has been with the company since 1988 and has been an integral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

Figure 3. Divisional revenue breakdown (FY20)



Source: Company reports, Forsyth Barr analysis

Figure 4. Store footprint



Source: Company reports, Forsyth Barr analysis

**Figure 5. Price performance**


Source: Forsyth Barr analysis

**Figure 6. Substantial shareholders**

Shareholder	Latest Holding
R A Duke Trust	77.8%

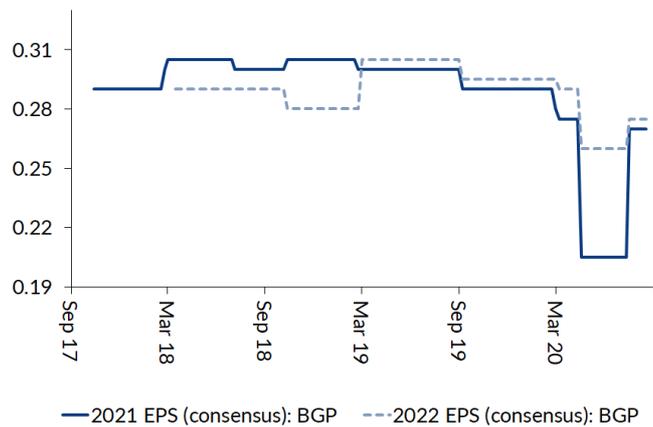
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 7. International valuation comparisons**

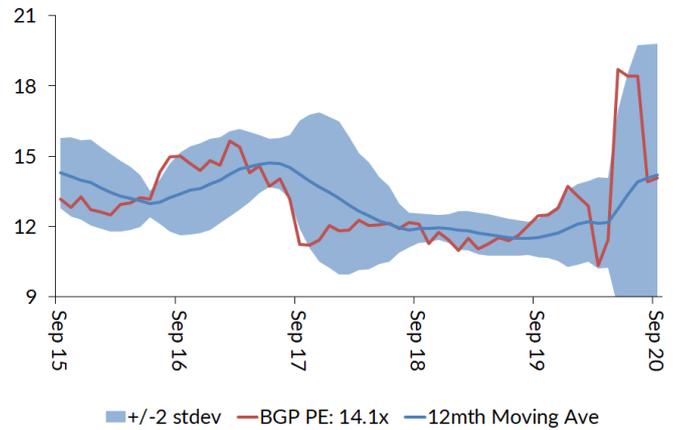
Company (metrics re-weighted to reflect BGP's balance date - January)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Briscoe Group	BGP NZ	NZ\$3.84	NZ\$849	13.1x	14.6x	6.1x	6.4x	7.7x	8.4x	5.6%
THE WAREHOUSE GROUP *	WHS NZ	NZ\$2.05	NZ\$711	14.9x	15.6x	5.8x	5.8x	10.7x	11.1x	4.9%
SUPER RETAIL GROUP	SUL AT	A\$10.63	A\$2,400	16.2x	14.1x	6.5x	6.3x	13.3x	11.7x	4.6%
HARVEY NORMAN HOLDINGS	HVN AT	A\$4.34	A\$5,408	11.9x	13.4x	7.7x	7.7x	9.6x	10.1x	5.8%
KATHMANDU HOLDINGS *	KMD NZ	NZ\$1.23	NZ\$872	18.5x	15.5x	11.0x	8.0x	16.4x	11.0x	4.1%
MICHAEL HILL INTL *	MHJ NZ	A\$0.40	A\$153	<0x	6.6x	1.8x	1.6x	6.6x	3.8x	8.4%
<b>Compc Average:</b>				<b>15.4x</b>	<b>13.0x</b>	<b>6.6x</b>	<b>5.9x</b>	<b>11.3x</b>	<b>9.5x</b>	<b>5.6%</b>
<b>BGP Relative:</b>				<b>-15%</b>	<b>12%</b>	<b>-6%</b>	<b>9%</b>	<b>-32%</b>	<b>-12%</b>	<b>1%</b>

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 8. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 9. One year forward PE (x)**


Source: Forsyth Barr analysis

**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 7 Sep 2020, Forsyth Barr's research ratings were distributed as follows:

	<b>OUTPERFORM</b>	<b>NEUTRAL</b>	<b>UNDERPERFORM</b>
	<b>44.4%</b>	<b>42.6%</b>	<b>13.0%</b>

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide investment banking services to the issuer that is the subject of this publication. For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to any other issuer referred to in this publication, please refer to the most recent research report for that issuer's financial products.

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

**Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.