FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | RETAIL | HOMEWARE & SPORTING GOODS
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Briscoe Group
3Q21 Sales Checkout

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RESEARCH INSIGHTS

Briscoe Group (BGP) has delivered another quarter of stellar growth with 3Q21 group sales up +15% on the prior year period accompanied by a robust gross margin. Following the strong recovery in sales, BGP has repaid its wage subsidy of NZ$11.5m. BGP appears well positioned heading into Christmas, with closed borders and buoyant house prices supportive of continued consumer spend, particularly for Homeware. However, a high level of uncertainty remains into FY22 as the underlying economic backdrop becomes clearer. Given its consistent track record of performance and robust balance sheet position, we view BGP as relatively well placed to weather any near-term turbulence.

NZX Code	BGP
Share price	NZ$4.04
Issued shares	221.1m
Market cap	NZ$893m
Avg daily turnover	32.5k (NZ$110k)

Financials: Jan/	20A	21E	22E	23E
NPAT* (NZ$m)	62.6	65.8	58.4	61.9
EPS* (NZc)	28.3	29.7	26.4	28.0
EPS growth* (%)	-1.3	5.1	-11.2	6.0
DPS (NZc)	8.5	21.0	21.0	24.0
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	14.3	13.6	15.3	14.4
EV/EBIT	8.4	7.9	8.7	8.3
EV/EBITDA	6.6	6.3	6.7	6.4
Price / NTA	2.9	2.7	2.6	2.6
Cash div yld (%)	2.1	5.2	5.2	5.9
Gross div yld (%)	2.9	7.2	7.2	8.3

Another strong quarter — positive momentum continues

3Q21 sales surged +15% on the prior comparable period, with underlying sales momentum fairly consistent from month to month (aside from Auckland's stint back into Alert Level 3). Rebel Sport was the stand out in the quarter, with sales up +19% on the prior year period, while Homeware sales increased +12%. Online sales remained healthy, representing 16% of group sales having moderated from 23% in 2Q21 (FY20 11%). Commentary suggests margins remain healthy, as strong sales enabled lower promotional activity and supply chain efficiencies provided additional uplift.

Optimistic into Christmas for a strong year end...

BGP is relatively well positioned heading into the key Christmas trading period, helped by a buoyant housing market and a reallocation of travel spend supportive of current retail momentum. BGP is also benefitting from category exposure, with two key purchasing trends post-lockdown being nesting and athleisure. Supply chain congestion across the sector raises some inventory shortage concerns, although BGP's track record and range of well recognised brands mitigates this risk, in our view.

Year to date group sales are up +2.4% on the prior year period (Rebel Sport +4.1%, Homeware +1.3%). We lift our full year run rate to +4.5% (from +2.4%), which implies 4Q21 group sales growth moderates (but remains strong) to +9.2%.

...maintain some caution beyond

BGP has delivered stellar sales growth in the last two quarters, more than offsetting the lost sales during lockdown. We have steadily lifted our FY21E earnings growth assumption over the past six months, which has swung down from as much as -52% in May to up +5.1% today, highlighting the materiality of recent sales results. However, as broad government stimulus tapers off and the economic realities of COVID-19 become clearer, we expect this will be hard to replicate. We maintain our cautious view on the medium-term outlook, forecasting a decline in FY22E group NPAT to below pre COVID-19 levels.

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Briscoe Group Limited (BGP)

Priced as at 03 Nov 2020 (NZ$)	4.04

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
Sales revenue	638.9	662.7	689.7	685.2	703.2
Normalised EBITDA	**92.8**	**123.7**	**131.0**	**121.8**	**127.2**
Depreciation and amortisation	(6.8)	(26.5)	(27.2)	(28.2)	(28.7)
Normalised EBIT	**86.0**	**97.2**	**103.9**	**93.6**	**98.5**
Net interest	0.6	(12.9)	(12.5)	(12.5)	(12.4)
Associate income	0	0	0	0	0
Tax	(23.2)	(21.7)	(25.6)	(22.7)	(24.1)
Minority interests	0	0	0	0	0
Normalised NPAT	**63.4**	**62.6**	**65.8**	**58.4**	**61.9**
Abnormals/other	0	2.7	0	0	0
Reported NPAT	**63.4**	**65.3**	**65.8**	**58.4**	**61.9**
Normalised EPS (cps)	28.7	28.3	29.7	26.4	28.0
DPS (cps)	20.0	8.5	21.0	21.0	24.0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	4.5	3.7	4.1	-0.7	2.6
EBITDA (%)	3.6	33.4	5.9	-7.0	4.4
EBIT (%)	3.2	13.1	6.8	-9.9	5.2
Normalised NPAT (%)	3.4	-1.3	5.1	-11.2	6.0
Normalised EPS (%)	3.0	-1.3	5.1	-11.2	6.0
Ordinary DPS (%)	5.3	-57.5	>100	0.0	14.3

Cash Flow (NZ$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	**92.8**	**123.7**	**131.0**	**121.8**	**127.2**
Working capital change	0	0.0	1.3	0.1	(0.2)
Interest & tax paid	(24.4)	(37.7)	(38.9)	(36.1)	(37.5)
Other	(2.7)	(6.5)	0.8	0.9	1.0
Operating cash flow	**65.7**	**79.5**	**94.3**	**86.7**	**90.5**
Capital expenditure	(19.6)	(17.4)	(17.2)	(15.3)	(11.3)
(Acquisitions)/divestments	(0.7)	(13.6)	0	0	0
Other	(1.9)	(18.0)	(19.3)	(19.3)	(19.4)
Funding available/(required)	**43.5**	**30.5**	**57.8**	**52.1**	**59.8**
Dividends paid	(43.1)	(45.5)	(46.4)	(46.4)	(53.1)
Equity raised/(returned)	2.2	1.6	0	0	0
(Increase)/decrease in net debt	**2.6**	**(13.4)**	**11.4**	**5.7**	**6.7**

Balance Sheet (NZ$m)	2019A	2020A	2021E	2022E	2023E
Working capital	0.1	9.7	8.3	8.3	8.5
Fixed assets	92.0	97.3	107.3	114.3	116.8
Intangibles	2.5	3.5	3.5	3.5	3.5
Right of use asset	0	266.0	266.0	266.0	266.0
Other assets	106.2	171.5	171.5	171.5	171.5
Total funds employed	**200.8**	**547.9**	**556.5**	**563.5**	**566.2**
Net debt/(cash)	(80.3)	(66.4)	(77.8)	(83.5)	(90.2)
Lease liability	0	296.4	297.1	297.7	298.3
Other liabilities	7.6	5.7	5.7	5.7	5.7
Shareholder's funds	273.5	312.1	331.5	343.4	352.3
Minority interests	0	0	0	0	0
Total funding sources	**200.8**	**547.9**	**556.5**	**563.5**	**566.2**

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

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	8.8	6.6	6.3	6.7	6.4
EV/EBIT (x)	9.5	8.4	7.9	8.7	8.3
PE (x)	14.1	14.3	13.6	15.3	14.4
Price/NTA (x)	3.3	2.9	2.7	2.6	2.6
Free cash flow yield (%)	5.2	7.0	8.6	8.0	8.9
Net dividend yield (%)	5.0	2.1	5.2	5.2	5.9
Gross dividend yield (%)	6.9	2.9	7.2	7.2	8.3

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	n/a	7.5	8.3	7.5	7.9
Interest cover EBITDA (x)	n/a	9.6	10.5	9.8	10.2
Net debt/ND+E (%)	-41.9	-27.5	-31.2	-32.6	-34.9
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	23.5	14.0	14.5	12.9	13.3
Return on equity (%)	23.2	20.1	19.8	17.0	17.6
Return on funds employed (%)	34.6	34.5	31.5	27.7	28.6
EBITDA margin (%)	14.5	18.7	19.0	17.8	18.1
EBIT margin (%)	13.5	14.7	15.1	13.7	14.0
Capex to sales (%)	3.1	2.6	2.5	2.2	1.6
Capex to depreciation (%)	289	66	63	54	39
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	70	30	71	79	86

Operating Performance	2019A	2020A	2021E	2022E	2023E
Divisional revenue (NZ$m)					
Homeware	403	411	426	426	438
Rebel Sport	229	242	257	253	258
Other	7	10	7	7	7
Total revenue	**639**	**663**	**690**	**685**	**703**
Gross profit (NZ$m)	**253**	**258**	**272**	**263**	**271**
Gross margins (%)					
Homeware	40.2	39.5	40.0	39.0	39.0
Rebel Sport	39.9	39.3	39.5	38.5	39.0
Group	**39.7**	**38.9**	**39.4**	**38.4**	**38.6**
Divisional EBIT (NZ$m)					
Homeware	47	49	59	54	54
Rebel Sport	31	36	43	38	39
Other	8	11	1	1	6
Total EBIT	**86**	**97**	**104**	**94**	**98**
EBIT Margins (%)					
Homeware	11.6	12.0	13.9	12.6	12.3
Rebel Sport	13.6	15.1	16.8	15.2	15.2
Group	**13.5**	**14.7**	**15.1**	**13.7**	**14.0**

Earnings changes

We make large upgrades to our underlying FY21E earnings assumptions, more than offsetting the return of the wage subsidy (NZ$11.5m). We lift our sales and gross margin assumptions on the back of recent sales momentum, combined with lower promotional activity and good cost control, driving a +10% lift to our FY21E group gross profit forecast (implied year on year growth of +6%).

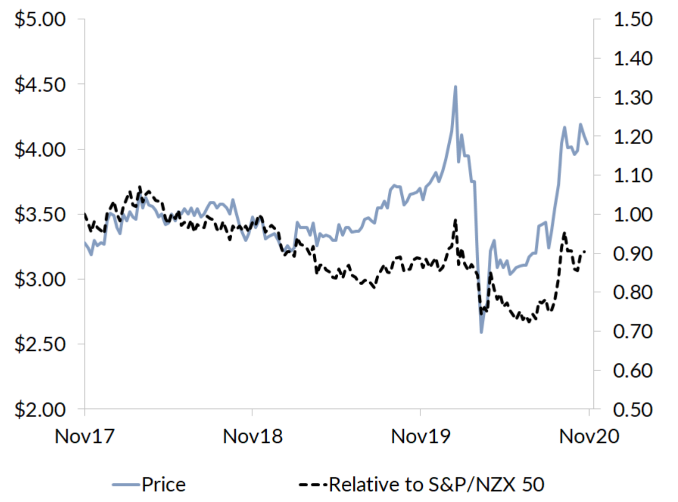
We maintain a level of caution into FY22E, representing significant economic uncertainty, with limited changes to our assumptions in further years.

Figure 1. Earnings changes (NZ$m)

	FY21E			FY22E			FY23E		
	Old	**New**	**% chg**	**Old**	**New**	**% chg**	**Old**	**New**	**% chg**
Revenue	679.1	689.7	1.6%	687.6	685.2	-0.3%	711.9	703.2	-1.2%
EBIT	101.5	103.9	2.4%	93.2	93.6	0.4%	99.2	98.5	-0.7%
NPAT	**64.7**	**65.8**	**1.7%**	**58.2**	**58.4**	**0.3%**	**62.6**	**61.9**	**-1.1%**
EPS (cps)	29.2	29.7	1.7%	26.3	26.4	0.3%	28.3	28.0	-1.1%
DPS (cps)	21.0	21.0	-	21.5	21.0	-2.3%	24.5	24.0	-2.0%

Source: Forsyth Barr analysis

Figure 2. Price performance



Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

Shareholder	Latest Holding
R A Duke Trust	77.8%

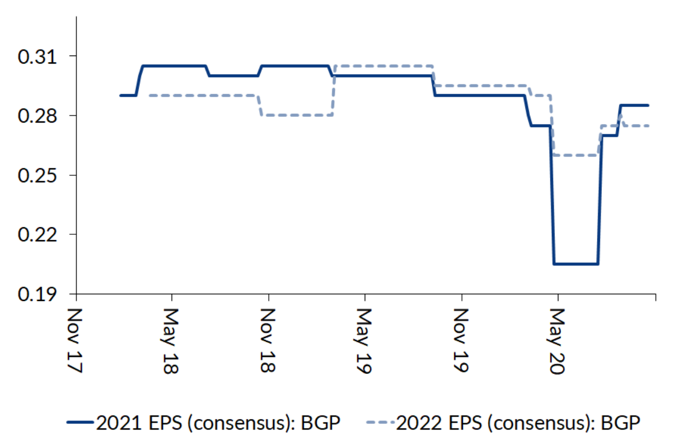
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect BGP's balance date - January)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Briscoe Group	**BGP NZ**	**NZ$4.04**	**NZ$893**	**13.6x**	**15.3x**	**6.3x**	**6.8x**	**7.9x**	**8.8x**	**5.2%**
THE WAREHOUSE GROUP *	WHS NZ	NZ$2.39	NZ$829	11.2x	11.3x	2.2x	2.3x	4.6x	4.7x	5.6%
SUPER RETAIL GROUP	SUL AT	A$11.19	A$2,527	16.0x	13.9x	6.4x	6.3x	13.0x	11.3x	4.7%
HARVEY NORMAN HOLDINGS	HVN AT	A$4.44	A$5,532	11.2x	12.6x	7.4x	7.4x	9.3x	9.8x	6.2%
KATHMANDU HOLDINGS *	KMD NZ	NZ$1.17	NZ$830	21.8x	13.9x	9.1x	7.1x	13.4x	9.8x	4.7%
MICHAEL HILL INTL *	MHJ NZ	A$0.53	A$206	10.3x	8.3x	2.2x	2.2x	5.5x	5.0x	6.3%
			Compco Average:	**14.1x**	**12.0x**	**5.5x**	**5.0x**	**9.1x**	**8.1x**	**5.5%**
EV = Current Market Cap + Actual Net Debt			**BGP Relative:**	**-4%**	**27%**	**15%**	**35%**	**-13%**	**9%**	**-5%**

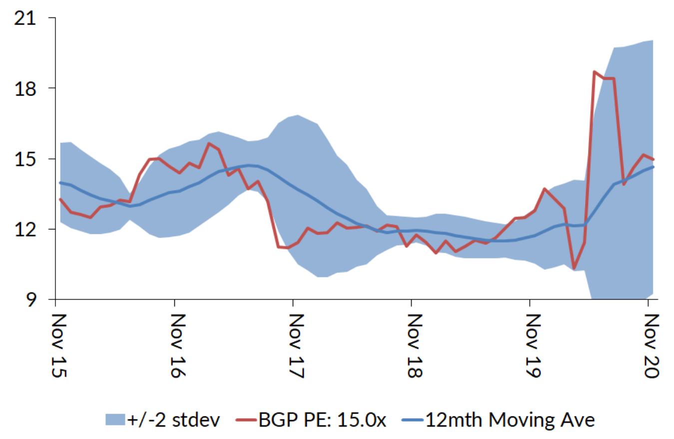
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (BGP) companies fiscal year end

Figure 5. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)



Source: Forsyth Barr analysis

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