

Briscoe Group

4Q21 Sales Checkout

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RESEARCH INSIGHTS

Briscoe Group (BGP) has delivered yet another stellar quarter with 4Q21 group sales up +18% on the prior year period accompanied by gross margin expansion. Following a strong Christmas trading period, BGP has lifted FY21 NPAT guidance to in excess of NZ\$70m. We lift our FY21E NPAT +12% to NZ\$72m. BGP has benefitted from a buoyant consumer backdrop, which we expect to continue in the near-term, supported by both rising house prices and a reallocation of travel spend with borders remaining closed. As such we also upgrade our FY22 NPAT forecast +26% to NZ\$74m, to reflect the expectation consumer momentum remains in place for longer.

NZX Code	BGP	Financials: Jan/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$5.70	NPAT* (NZ\$m)	62.6	72.4	73.5	73.0	PE	20.1	17.4	17.1	17.3
Issued shares	221.1m	EPS* (NZc)	28.3	32.7	33.3	33.0	EV/EBIT	13.6	13.0	12.8	12.9
Market cap	NZ\$1,260m	EPS growth* (%)	-1.3	15.6	1.6	-0.7	EV/EBITDA	10.7	10.5	10.3	10.3
Avg daily turnover	36.2k (NZ\$132k)	DPS (NZc)	8.5	29.0	24.5	26.0	Price / NTA	4.1	4.0	3.7	3.6
		Imputation (%)	100	100	100	100	Cash div yld (%)	1.5	5.1	4.3	4.6
		*Based on normalised profits					Gross div yld (%)	2.1	7.1	6.0	6.3

Strong Christmas period, margin expansion the highlight

BGP announced 4Q21 sales of NZ\$248m, up +18% on the prior year period, albeit bolstered by the inclusion of an extra week. On a same-day, same-store sales basis, group sales increased +12% with both brands strong. Consumer momentum remained strong through the holiday period, with record Boxing and Black Friday sales days. Gross margin expansion was the key highlight through FY21 as the combination of a motivated consumer and tight inventory positions lowered discounting activity. BGP has made a number of small tweaks to its discounting tactics, which are likely to deliver more enduring margin expansion. In addition, we understand supply chains and therefore inventory levels remain tight, albeit comfortable, supporting a continuation of favourable gross margin.

Divisional detail — Online penetration remains elevated

- **Homeware:** Same-store, same-day sales (SSS) increased +13% on the prior comparable period, with Textiles and Manchester among standout product categories. On a full year basis total sales (including the extra week) increased +6.9%.
- **Sporting goods:** Similarly strong with Sporting goods 4Q21 SSS up +11%. On a full year basis total sales increased +8.5%.
- **Online:** FY21 e-commerce sales increased +80% year on year and represented 19% of total group sales (FY19 11%). We estimate 4Q21 online penetration was 17%, suggesting the lockdown induced lift in online adoption has been relatively sticky, helped by the roll out of click and collect across the store network.

BGP FY21 result 16 March

BGP is set to report its FY21 result on 16 March 2021, and has issued revised FY21 NPAT guidance in excess of NZ\$70m, following the strong period. We expect the key areas of focus at the result will be 1) a breakdown of margin expansion drivers, 2) inventory levels, and 3) capital distribution. BGP announced a 6cps special dividend in December 2020. We expect a final dividend of 14cps taking the full year dividend to 29cps (including special), which is a payout ratio of 90% (70% excluding the special).

Briscoe Group Limited (BGP)

Priced as at 09 Feb 2021 (NZ\$)

5.70

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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	708.8	733.0	741.7	EV/EBITDA (x)	12.7	9.6	8.5	8.3	8.4
Normalised EBITDA	92.8	123.7	140.3	142.9	142.6	EV/EBIT (x)	13.7	12.2	10.5	10.4	10.5
Depreciation and amortisation	(6.8)	(26.5)	(27.2)	(28.2)	(28.7)	PE (x)	19.9	20.1	17.4	17.1	17.3
Normalised EBIT	86.0	97.2	113.1	114.7	113.8	Price/NTA (x)	4.7	4.1	4.0	3.7	3.6
Net interest	0.6	(12.9)	(12.6)	(12.6)	(12.4)	Free cash flow yield (%)	3.7	4.9	6.6	6.8	7.2
Associate income	0	0	0	0	0	Net dividend yield (%)	3.5	1.5	5.1	4.3	4.6
Tax	(23.2)	(21.7)	(28.1)	(28.6)	(28.4)	Gross dividend yield (%)	4.9	2.1	7.1	6.0	6.3
Minority interests	0	0	0	0	0						
Normalised NPAT	63.4	62.6	72.4	73.5	73.0	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	0	2.7	0	0	0	Interest cover EBIT (x)	n/a	7.5	9.0	9.1	9.1
Reported NPAT	63.4	65.3	72.4	73.5	73.0	Interest cover EBITDA (x)	n/a	9.6	11.1	11.4	11.5
Normalised EPS (cps)	28.7	28.3	32.7	33.3	33.0	Net debt/ND+E (%)	-41.9	-27.5	-26.7	-30.9	-35.8
DPS (cps)	20.0	8.5	29.0	24.5	26.0	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Growth Rates	2019A	2020A	2021E	2022E	2023E	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	4.5	3.7	7.0	3.4	1.2	Return on assets (%)	23.5	14.0	16.0	15.8	15.3
EBITDA (%)	3.6	33.4	13.4	1.9	-0.2	Return on equity (%)	23.2	20.1	22.6	21.6	20.5
EBIT (%)	3.2	13.1	16.4	1.4	-0.8	Return on funds employed (%)	34.6	34.5	34.2	33.6	32.8
Normalised NPAT (%)	3.4	-1.3	15.6	1.6	-0.7	EBITDA margin (%)	14.5	18.7	19.8	19.5	19.2
Normalised EPS (%)	3.0	-1.3	15.6	1.6	-0.7	EBIT margin (%)	13.5	14.7	16.0	15.6	15.3
Ordinary DPS (%)	5.3	-57.5	>100	6.5	6.1	Capex to sales (%)	3.1	2.6	2.4	2.1	1.5
						Capex to depreciation (%)	289	66	63	54	39
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	100	100	100	100	100
EBITDA	92.8	123.7	140.3	142.9	142.6	Pay-out ratio (%)	70	30	89	74	79
Working capital change	0	0.0	1.1	(0.3)	(0.1)						
Interest & tax paid	(24.4)	(37.7)	(41.5)	(42.0)	(41.8)	Operating Performance	2019A	2020A	2021E	2022E	2023E
Other	(2.7)	(6.5)	0.7	0.8	1.0	Divisional revenue (NZ\$m)					
Operating cash flow	65.7	79.5	100.6	101.4	101.6	Homeware	403	411	439	457	462
Capital expenditure	(19.6)	(17.4)	(17.2)	(15.3)	(11.3)	Rebel Sport	229	242	263	269	273
(Acquisitions)/divestments	(0.7)	(13.6)	0	0	0	Other	7	10	7	7	7
Other	(1.9)	(18.0)	(19.3)	(19.3)	(19.4)	Total revenue	639	663	709	733	742
Funding available/(required)	43.5	30.5	64.2	66.9	71.0						
Dividends paid	(43.1)	(45.5)	(64.1)	(54.2)	(57.5)	Gross profit (NZ\$m)	253	258	286	293	291
Equity raised/(returned)	2.2	1.6	0	0	0						
(Increase)/decrease in net debt	2.6	(13.4)	0.0	12.7	13.5	Gross margins (%)					
						Homeware	40.2	39.5	41.0	40.5	40.0
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Rebel Sport	39.9	39.3	40.5	40.0	39.0
Working capital	0.1	9.7	8.6	8.9	9.0	Group	39.7	38.9	40.4	39.9	39.2
Fixed assets	92.0	97.3	107.3	114.3	116.8						
Intangibles	2.5	3.5	3.5	3.5	3.5	Divisional EBIT (NZ\$m)					
Right of use asset	0	266.0	266.0	266.0	266.0	Homeware	47	49	65	67	65
Other assets	106.2	171.5	171.5	171.5	171.5	Rebel Sport	31	36	47	46	43
Total funds employed	200.8	547.9	556.8	564.1	566.7	Other	8	11	2	2	6
Net debt/(cash)	(80.3)	(66.4)	(66.4)	(79.1)	(92.6)	Total EBIT	86	97	113	115	114
Lease liability	0	296.4	297.1	297.7	298.3						
Other liabilities	7.6	5.7	5.7	5.7	5.7	EBIT Margins (%)					
Shareholder's funds	273.5	312.1	320.4	339.7	355.3	Homeware	11.6	12.0	14.8	14.7	14.0
Minority interests	0	0	0	0	0	Rebel Sport	13.6	15.1	17.8	17.2	15.9
Total funding sources	200.8	547.9	556.8	564.1	566.7	Group	13.5	14.7	16.0	15.6	15.3

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

4Q21 sales and earnings changes

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

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21*	FY21*
Homeware									
Sales (NZ\$m)	90.7	100.8	87.9	131.5	57.6	126.7	98.7	156.2	439.2
% growth	+2.9%	+2.3%	+4.7%	-0.7%	-36.4%	+25.7%	+12.3%	+18.8%	+6.9%
SSS growth	+3.2%	+2.3%	+4.7%	-2.0%				+12.6%	+6.9%
Store numbers	47	47	47	47	49	49	50	51	51
Rebel Sport									
Sales (NZ\$m)	59.9	51.6	52.4	78.3	39.4	68.7	62.6	91.9	262.6
% growth	+2.3%	+7.6%	+7.4%	6.5%	-34.3%	+33.2%	+19.5%	+17.4%	+8.4%
SSS growth	+0.4%	+5.6%	+3.2%	+2.7%				+10.7%	+8.5%
Store numbers	39	39	40	41	41	42	42	43	43
Total sales	150.6	152.3	140.3	209.7	97.0	195.4	161.3	248.1	701.8
% growth	+2.6%	+4.1%	+5.6%	+1.8%	-35.6%	+28.3%	+15.0%	+18.3%	+7.5%
SSS growth									+7.5%

Source: BGP, Forsyth Barr analysis, * 4Q21 and FY21* contain an extra week vs. pc, SSS numbers are adjusted for the extra week

Earnings changes

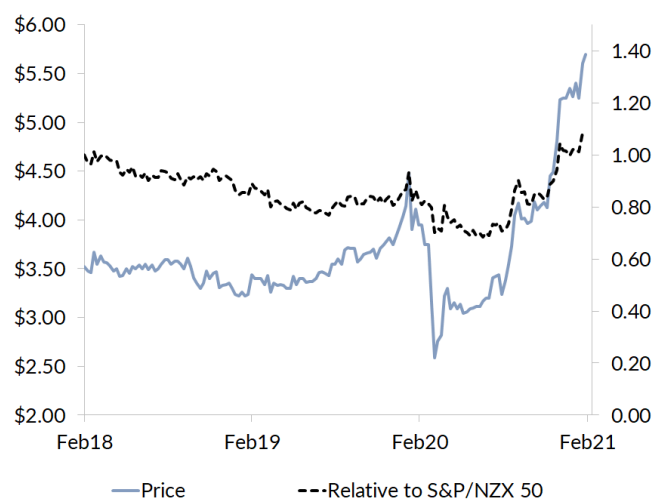
Following a record Christmas sales trading period BGP has guided to FY21 NPAT in excess of NZ\$70m, as such we lift our FY21E NPAT assumption +12% to NZ\$72m. The majority of the uplift is driven by stronger than expected sales through 4Q21. Our dividend forecast lifts +8cps to 29cps, which includes the 6cps special dividend announced in December 2020 and paid in January 2021.

A buoyant consumer backdrop and favourable category exposure is benefitting BGP, and we expect those dynamics to remain in place in the short-term. Consumer momentum is linked to a mixture of a reallocation of travel spend and rising house prices, in our opinion. With borders unlikely to open in a meaningful way in 2021, such that consumers book large overseas travel, we, therefore, expect a continuation of the current trends. We lift our FY22E NPAT forecast +26% to NZ\$74m. Our medium-term forecasts also lift, albeit by a smaller amount, as we factor in higher gross margin (tweaks to discounting strategy) and assume a higher selling base.

Figure 2. Earnings revisions (NZ\$m)

	Old	FY21E New	% chg	Old	FY22E New	% chg	Old	FY23E New	% chg
Revenue	679.1	708.8	4.4%	687.6	733.0	6.6%	711.9	741.7	4.2%
EBIT	101.5	113.1	11.5%	93.2	114.7	23.0%	99.2	113.8	14.8%
NPAT	64.7	72.4	11.9%	58.2	73.5	26.3%	62.6	73.0	16.5%
EPS	29.2	32.7	11.9%	26.3	33.3	26.3%	28.3	33.0	16.5%
DPS	21.0	29.0	38.1%	21.5	24.5	14.0%	24.5	26.0	6.1%

Source: Forsyth Barr analysis

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
R A Duke Trust	77.8%

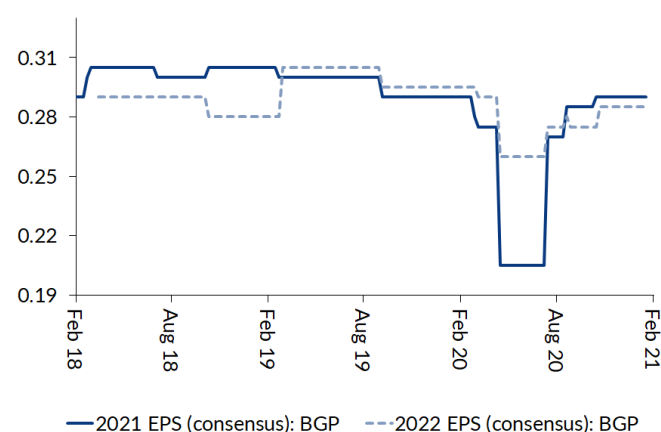
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

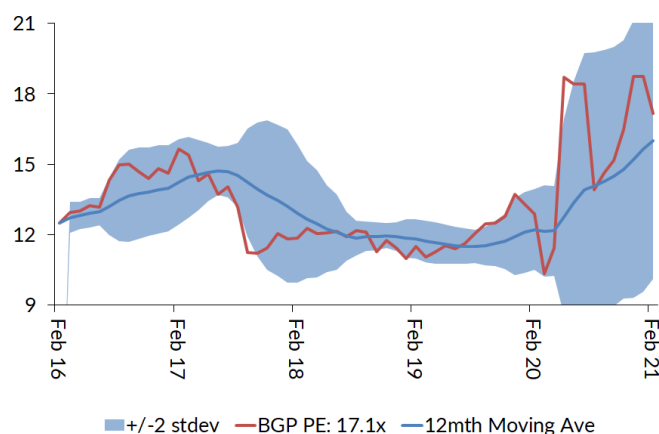
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect BGP's balance date - January)										
			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Briscoe Group	BGP NZ	NZ\$5.70	NZ\$1,260	17.4x	17.1x	8.5x	8.3x	10.5x	10.4x	4.3%
THE WAREHOUSE GROUP *	WHS NZ	NZ\$3.11	NZ\$1,124	10.8x	10.1x	2.8x	2.8x	6.8x	5.2x	6.4%
SUPER RETAIL GROUP	SUL AT	A\$11.91	A\$2,690	14.8x	12.6x	6.2x	6.1x	12.1x	10.7x	5.3%
HARVEY NORMAN HOLDINGS	HVN AT	A\$5.62	A\$7,003	12.6x	14.2x	8.3x	8.4x	10.4x	11.2x	5.7%
KATHMANDU HOLDINGS *	KMD NZ	NZ\$1.34	NZ\$950	25.0x	16.0x	5.7x	4.5x	16.9x	10.6x	4.1%
MICHAEL HILL INTL *	MHJ NZ	A\$0.70	A\$283	8.9x	8.7x	2.8x	2.7x	6.6x	5.5x	6.9%
Compcpo Average:				14.4x	12.3x	5.2x	4.9x	10.6x	8.7x	5.7%
BGP Relative:				21%	39%	65%	70%	-0%	20%	-25%
EV = Current Market Cap + Actual Net Debt										

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

Figure 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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