FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | RETAIL | HOMEWARE & SPORTING GOODS
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# Briscoe Group
## FY21 Result — Sailing on the Rising Tide


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## RESEARCH INSIGHTS

Briscoe Group (BGP) reported a record FY21 result, in line with expectations, featuring strong sales growth and material margin expansion. 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.

| NZX Code | BGP |
|---|---|
| Share price | NZ$5.81 |
| Issued shares | 221.1m |
| Market cap | NZ$1,285m |
| Avg daily turnover | 37.9k (NZ$146k) |

| Financials: Jan/ | 21A | 22E | 23E | 24E |
|---|---|---|---|---|
| NPAT* (NZ$m) | 73.2 | 76.0 | 74.5 | n/a |
| EPS* (NZc) | 32.9 | 34.2 | 33.5 | 32.2 |
| EPS growth* (%) | 16.2 | 3.8 | -2.0 | -3.8 |
| DPS (NZc) | 28.5 | 24.5 | 26.0 | n/a |
| Imputation (%) | 100 | 100 | 100 | n/a |

*Based on normalised profits

| Valuation (x) | 21A | 22E | 23E | 24E |
|---|---|---|---|---|
| PE | 17.7 | 17.0 | 17.4 | 18.0 |
| EV/EBIT | 12.7 | 12.3 | 12.5 | n/a |
| EV/EBITDA | 10.3 | 9.9 | 10.0 | n/a |
| Price / NTA | 5.1 | 4.7 | 4.4 | n/a |
| Cash div yld (%) | 4.9 | 4.2 | 4.5 | n/a |
| Gross div yld (%) | 6.8 | 5.9 | 6.2 | n/a |

### 1H21 result highlights

BGP reported FY21 NPAT of NZ$73m, broadly in line with both guidance and expectations (NZ$72m). In addition, BGP announced a final dividend of 13.5cps (full year 28.5cps, including a previously announced 6cps special).

- **Surging consumer momentum offsets lockdown sales impact —** Store sales increased +7.5%, albeit boosted by an extra week in the period. Sales increased c. +3.9% on a per week basis, despite seven weeks of nationwide temporary store closures. Growth was broad based across the business, with Homeware up +4.9% and Rebel Sport up +6.4% on the prior year on a per week basis.
- **Margin expansion meaningful —** FY21 group gross margin expanded +440bps to 43.8%, benefitting from low sector inventory which limited the need for promotional activity. BGP also implemented internal initiatives to support margin growth including improved inventory purchasing, and changes to product clearance. Whilst it is hard to discern the quantum of the internal and external factors driving the margin uplift at this time, we suspect it is more of the latter and therefore forecast group FY22E gross margin of 41%.
- **Ecommerce surge —** Online sales jumped +80% and made up 19% of group sales for the period (FY20 11%). Click & collect has been rolled out across the network and made up 30% of all online sales in 2H21 (9% in 1H21).
- **Inventory up, in contrast to rest of sector —** FY21 inventory increased +4.6% on the prior year, reflecting advance orders of homeware stock in response to supply chain delays and indicating the strength of BGP's supplier relationships.
- **Cash balance continues to grow —** BGP reported an FY21 cash balance of NZ$100.4m, up +49% on the prior year. BGP has previously signalled an appetite for acquisitive growth, although we suspect finding attractively priced targets in this environment will be difficult. Near-term investment is more likely to be targeted towards organic opportunities, with scope to launch further product lines within the existing store portfolio.

### Strong trading expected to continue in the near-term

Outlook commentary was limited, with BGP signalling an intention to deliver "improved profit". Our FY22E NPAT forecast of NZ$76m, implies +3.8% growth on the prior year. We have made small positive revisions to near-term forecasts as we factor in a degree of gross margin improvement attributable to internal initiatives.

## Briscoe Group Limited (BGP)

| Priced as at 16 Mar 2021 (NZ$) | 5.81 |
|---|---|

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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) | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Sales revenue | 662.7 | 701.9 | 735.7 | 746.8 | 755.6 |
| **Normalised EBITDA** | **123.7** | **143.1** | **145.7** | **144.0** | **140.1** |
| Depreciation and amortisation | (26.5) | (27.2) | (28.2) | (28.8) | (29.0) |
| **Normalised EBIT** | **97.2** | **115.9** | **117.5** | **115.2** | **111.1** |
| Net interest | (12.9) | (14.5) | (11.9) | (11.8) | (11.6) |
| Associate income | 0 | 0 | 0 | 0 | 0 |
| Tax | (21.7) | (28.2) | (29.6) | (29.0) | (27.9) |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| **Normalised NPAT** | **62.6** | **73.2** | **76.0** | **74.5** | **71.6** |
| Abnormals/other | 2.7 | 0 | 0 | 0 | 0 |
| **Reported NPAT** | **65.3** | **73.2** | **76.0** | **74.5** | **71.6** |
| Normalised EPS (cps) | 28.3 | 32.9 | 34.2 | 33.5 | 32.2 |
| DPS (cps) | 8.5 | 28.5 | 24.5 | 26.0 | 27.0 |

| Growth Rates | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Revenue (%) | 3.7 | 5.9 | 4.8 | 1.5 | 1.2 |
| EBITDA (%) | 33.4 | 15.7 | 1.8 | -1.2 | -2.7 |
| EBIT (%) | 13.1 | 19.2 | 1.4 | -1.9 | -3.5 |
| Normalised NPAT (%) | -1.3 | 17.0 | 3.8 | -2.0 | -3.8 |
| Normalised EPS (%) | -1.3 | 16.2 | 3.8 | -2.0 | -3.8 |
| Ordinary DPS (%) | -57.5 | >100 | 8.9 | 6.1 | 3.8 |

| Cash Flow (NZ$m) | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| **EBITDA** | **123.7** | **143.1** | **145.7** | **144.0** | **140.1** |
| Working capital change | 0.0 | (0.0) | 5.5 | (0.1) | (0.1) |
| Interest & tax paid | (37.7) | (37.8) | (42.7) | (42.1) | (41.0) |
| Other | (6.5) | 1.2 | 1.2 | 1.4 | 1.5 |
| **Operating cash flow** | **79.5** | **106.6** | **109.7** | **103.1** | **100.5** |
| Capital expenditure | (17.4) | (25.5) | (16.0) | (12.1) | (12.3) |
| (Acquisitions)/divestments | (13.6) | 2.0 | 0 | 0 | 0 |
| Other | (18.0) | (17.6) | (19.0) | (19.0) | (19.0) |
| **Funding available/(required)** | **30.5** | **65.5** | **74.7** | **72.1** | **69.2** |
| Dividends paid | (45.5) | (33.4) | (54.5) | (57.8) | (60.1) |
| Equity raised/(returned) | 1.6 | 0.9 | 0 | 0 | 0 |
| **(Increase)/decrease in net debt** | **(13.4)** | **33.0** | **20.1** | **14.2** | **9.1** |

| Balance Sheet (NZ$m) | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Working capital | 9.7 | 14.1 | 8.6 | 8.7 | 8.8 |
| Fixed assets | 97.3 | 117.4 | 124.4 | 126.9 | 129.4 |
| Intangibles | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Right of use asset | 266.0 | 255.9 | 255.9 | 255.9 | 255.9 |
| Other assets | 171.5 | 76.7 | 76.7 | 76.7 | 76.7 |
| **Total funds employed** | **547.9** | **467.6** | **469.2** | **471.8** | **474.4** |
| Net debt/(cash) | (66.4) | (97.0) | (117.2) | (131.4) | (140.5) |
| Lease liability | 296.4 | 292.3 | 292.5 | 292.6 | 292.8 |
| Other liabilities | 5.7 | 13.3 | 13.3 | 13.3 | 13.3 |
| Shareholder's funds | 312.1 | 259.0 | 280.5 | 297.2 | 308.8 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| **Total funding sources** | **547.9** | **467.6** | **469.2** | **471.8** | **474.4** |

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

| Valuation Ratios | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| EV/EBITDA (x) | 9.8 | 8.4 | 8.1 | 8.1 | 8.3 |
| EV/EBIT (x) | 12.5 | 10.4 | 10.0 | 10.1 | 10.5 |
| PE (x) | 20.5 | 17.7 | 17.0 | 17.4 | 18.0 |
| Price/NTA (x) | 4.2 | 5.1 | 4.7 | 4.4 | 4.2 |
| Free cash flow yield (%) | 4.8 | 6.2 | 7.3 | 7.1 | 6.9 |
| Net dividend yield (%) | 1.5 | 4.9 | 4.2 | 4.5 | 4.6 |
| Gross dividend yield (%) | 2.0 | 6.8 | 5.9 | 6.2 | 6.5 |

| Capital Structure | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Interest cover EBIT (x) | 7.5 | 8.0 | 9.8 | 9.8 | 9.6 |
| Interest cover EBITDA (x) | 9.6 | 9.9 | 12.2 | 12.2 | 12.0 |
| Net debt/ND+E (%) | -27.5 | -63.3 | -75.4 | -83.0 | -87.3 |
| Net debt/EBITDA (x) | n/a | n/a | n/a | n/a | n/a |

| Key Ratios | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Return on assets (%) | 14.0 | 17.9 | 17.4 | 16.7 | 15.8 |
| Return on equity (%) | 20.1 | 28.3 | 27.1 | 25.1 | 23.2 |
| Return on funds employed (%) | 34.5 | 43.5 | 55.2 | 53.5 | 50.9 |
| EBITDA margin (%) | 18.7 | 20.4 | 19.8 | 19.3 | 18.5 |
| EBIT margin (%) | 14.7 | 16.5 | 16.0 | 15.4 | 14.7 |
| Capex to sales (%) | 2.6 | 3.6 | 2.2 | 1.6 | 1.6 |
| Capex to depreciation (%) | 66 | 94 | 57 | 42 | 42 |
| Imputation (%) | 100 | 100 | 100 | 100 | 100 |
| Pay-out ratio (%) | 30 | 87 | 72 | 78 | 84 |

| Operating Performance | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| **Divisional revenue (NZ$m)** | | | | | |
| Homeware | 411 | 439 | 457 | 464 | 469 |
| Rebel Sport | 242 | 263 | 269 | 273 | 277 |
| Other | 10 | 0 | 10 | 10 | 10 |
| **Total revenue** | **663** | **702** | **736** | **747** | **756** |
| | | | | | |
| **Gross profit (NZ$m)** | **258** | **307** | **298** | **295** | **293** |
| | | | | | |
| **Gross margins (%)** | | | | | |
| Homeware | 39.5 | 43.8 | 41.0 | 40.0 | 39.5 |
| Rebel Sport | 39.3 | 43.7 | 41.0 | 40.0 | 39.0 |
| **Group** | **38.9** | **43.8** | **40.5** | **39.5** | **38.8** |
| | | | | | |
| **Divisional EBIT (NZ$m)** | | | | | |
| Homeware | 49 | 67 | 69 | 63 | 61 |
| Rebel Sport | 36 | 46 | 47 | 46 | 44 |
| Other | 11 | 2 | 1 | 6 | 6 |
| **Total EBIT** | **97** | **116** | **118** | **115** | **111** |
| | | | | | |
| **EBIT Margins (%)** | | | | | |
| Homeware | 12.0 | 15.2 | 15.1 | 13.7 | 13.0 |
| Rebel Sport | 15.1 | 17.7 | 17.5 | 16.9 | 15.9 |
| **Group** | **14.7** | **16.5** | **16.0** | **15.4** | **14.7** |

# FY21 result summary

### Figure 1. FY21 result summary (NZ$m)

| | FY20 | FY21 | % chg | Comments |
|---|---|---|---|---|
| **Total revenue** | **662.7** | **701.9** | **5.9%** | **Includes the full impact of temporary store closures and alert level restrictions** |
| COGS | 405.2 | 394.8 | -2.6% | |
| **Gross profit** | **257.5** | **307.1** | **19.3%** | **Group gross margin 43.8% (FY20 39.4%)** |
| Other expenses | 160.3 | 191.2 | 19.3% | Increased cost to serve and consulting fees |
| **EBIT** | **97.2** | **115.9** | **19.2%** | |
| Net interest | 12.9 | 14.5 | 12.1% | |
| **PBT** | **84.3** | **101.4** | **20.3%** | |
| Tax | 19.0 | 28.2 | 48.5% | Effective tax rate 27.8% |
| **Reported NPAT** | **65.3** | **73.2** | **12.1%** | |
| **Normalised NPAT** | **62.6** | **73.2** | **17.0%** | **In line with guidance of in excess of NZ$79m** |
| EPS (cps) | 28.3 | 32.9 | 16.2% | |
| Final DPS (cps) | - | 13.5 | - | Full year of 28.5cps, including already annouced 6cps special |
| | | | | |
| Cashflow and balance sheet | | | | |
| Operating cash flow | 79.5 | 106.6 | 34.0% | |
| Gross capex | 17.4 | 27.4 | 57.5% | Increased store investments with NZ$18m towards property development |
| **Net debt (cash)** | **(67.4)** | **(100.4)** | **49.0%** | |
| Inventory | 87.4 | 91.5 | 4.6% | Inventory up +$4.1m, reflecting early purchasing in lieu of supply chain congestion |
| | | | | |
| Segment reults | | | | |
| **Homeware** | | | | |
| Sales | 410.9 | 439.2 | 6.9% | |
| Gross profit | 162.3 | 192.4 | 18.5% | Gross profit margin 43.8% (FY20 39.5%) |
| EBIT | 49.4 | 67.0 | 35.6% | EBIT margin 15.2% (FY20 12.0%) |
| **Rebel Sport** | | | | |
| Sales | 242.1 | 262.6 | 8.4% | |
| Gross profit | 95.2 | 114.7 | 20.5% | Gross profit margin 43.7% (FY20 39.3%) |
| EBIT | 36.4 | 46.5 | 27.6% | EBIT margin 17.7% (FY20 15.1%) |

Source: Company reports, Forsyth Barr analysis

## Earnings changes

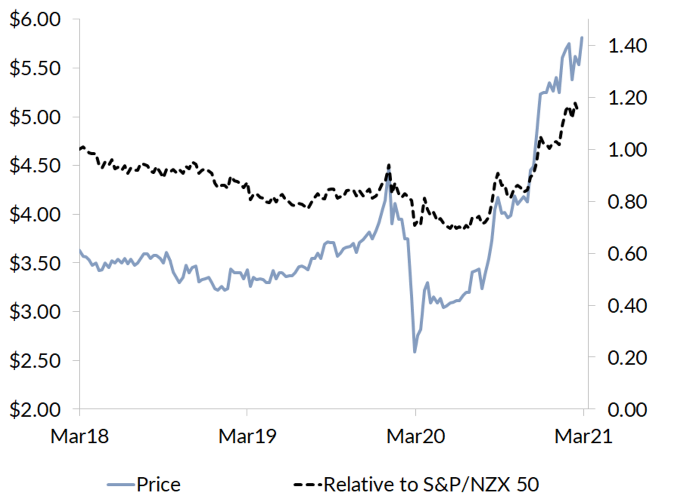
Changes to our earnings forecasts reflect small increases in our group gross margin assumptions, up +70bps and +40bps in FY22E and FY23E respectively. Given BGP's meaningful cash balance, we expect it to continue to grow dividends and lift our FY23E payout ratio.

### Figure 2. Forecast changes (NZ$m)

| | FY22E | | | FY23E | | | FY24E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Revenue | 733.0 | 735.7 | 0.4% | 741.7 | 746.8 | 0.7% | 750.5 | 755.6 | 0.7% |
| EBIT | 114.7 | 117.5 | 2.5% | 113.8 | 115.2 | 1.2% | 111.1 | 111.1 | 0.0% |
| NPAT | 73.5 | 76.0 | 3.4% | 73.0 | 74.5 | 2.1% | 71.1 | 71.6 | 0.7% |
| EPS (cps) | 33.3 | 34.2 | 2.7% | 33.0 | 33.5 | 1.4% | 32.2 | 32.2 | 0.1% |
| DPS (cps) | 24.5 | 24.5 | - | 26.0 | 26.0 | - | 26.0 | 27.0 | 3.8% |

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% |

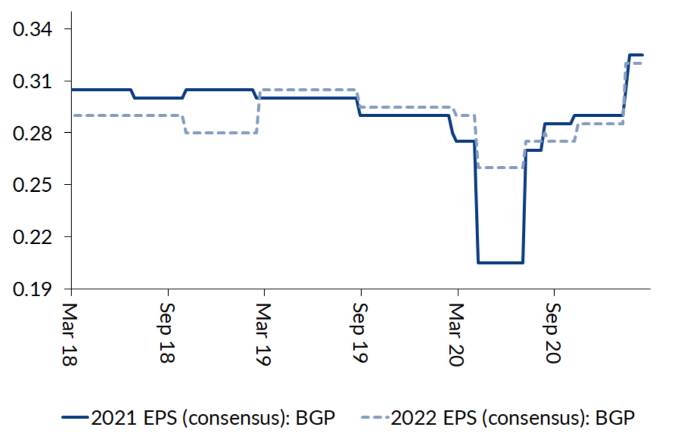
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

### 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) | 2022E | 2023E | 2022E | 2023E | 2022E | 2023E | 2023E |
| **Briscoe Group** | **BGP NZ** | **NZ$5.81** | **NZ$1,285** | **17.0x** | **17.4x** | **8.1x** | **8.2x** | **10.1x** | **10.3x** | **4.5%** |
| THE WAREHOUSE GROUP * | WHS NZ | NZ$3.38 | NZ$1,172 | 10.1x | 12.6x | 2.9x | 3.1x | 5.1x | 6.1x | 5.6% |
| SUPER RETAIL GROUP | SUL AT | A$11.07 | A$2,500 | 11.2x | 12.7x | 4.5x | 4.8x | 8.4x | 9.4x | 5.0% |
| HARVEY NORMAN HOLDINGS | HVN AT | A$5.61 | A$6,984 | 13.4x | 15.4x | 8.1x | 8.9x | 10.6x | 12.3x | 5.1% |
| KATHMANDU HOLDINGS * | KMD NZ | NZ$1.26 | NZ$893 | 15.0x | 10.4x | 4.2x | 3.7x | 10.0x | 7.4x | 6.3% |
| MICHAEL HILL INTL * | MHJ NZ | A$0.70 | A$272 | 7.9x | 8.4x | 2.5x | 2.6x | 4.9x | 5.1x | 7.5% |
| | | | **Compco Average:** | **11.5x** | **11.9x** | **4.4x** | **4.6x** | **7.8x** | **8.1x** | **5.9%** |
| EV = Current Market Cap + Actual Net Debt | | | **BGP Relative:** | **47%** | **45%** | **83%** | **78%** | **29%** | **28%** | **-24%** |

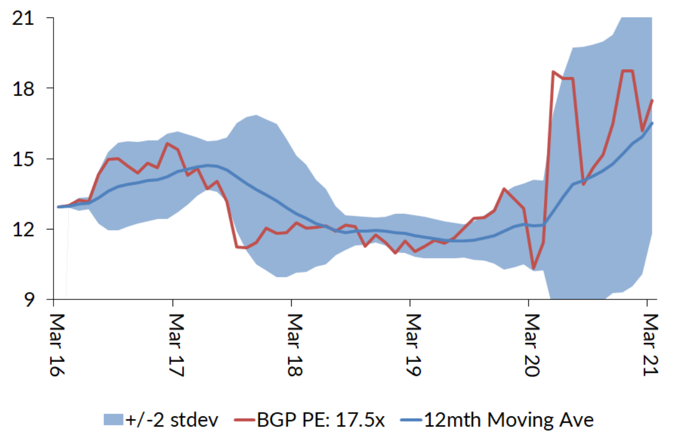
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (BGP) companies fiscal year end

### 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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