

Kathmandu Holdings

1H21 Preview — What's in Store

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Kathmandu (KMD) will release its 1H21 result on Tuesday, 23 March 2021; with the result pre-guided, investor focus is likely to be on current trading and outlook for the seasonally important winter period. We expect KMD to report a soft 1H21, relative to other retailers, as border closures weighed on its travel exposed Kathmandu brand, however, view it as well positioned for a strong 2H21. KMD has guided to 1H21 EBITDA (pre-IFRS16) of NZ\$47m–NZ\$49m.

NZX Code	KMD	Financials: Jul/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.26	NPAT* (NZ\$m)	29.0	43.5	72.7	85.2	PE	28.2	18.8	11.2	9.6
Target price	NZ\$1.60	EPS* (NZc)	4.5	6.7	11.2	13.1	EV/EBIT	20.6	14.0	8.9	7.8
Risk rating	High	EPS growth* (%)	-74.9	50.2	67.0	17.1	EV/EBITDA	6.3	5.3	4.4	4.1
Issued shares	649.2m	DPS (NZc)	0.0	4.0	7.0	9.0	Price / NTA	8.8	6.4	4.7	3.9
Market cap	NZ\$818m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.0	3.2	5.6	7.1
Avg daily turnover	1,957k (NZ\$2,112k)	*Based on normalised profits					Gross div yld (%)	0.0	4.4	7.7	9.9

Key issues to consider at KMD's 1H21 result

- **Soft Kathmandu brand sales performance** — Digging into specific drivers of weak brand sales will be an area of focus, particularly given positive sales growth achieved by key competitor Macpac over the same period. Lockdown adjusted direct to consumer (DTC) same store sales (SSS) for the Kathmandu brand fell -27% on the prior year, as travel linked categories weighed on performance.
- **Wholesale channel order book** — Wholesale sales in the Northern Hemisphere are seasonally weighted to the second half. Previous commentary suggests the order book has recovered well and is tracking ahead of pre COVID-19 levels. Further insight on trading and margin outlook will be of interest, particularly against the backdrop of a vaccine roll out and declining case numbers.
- **Expansion strategy** — KMD is targeting international expansion of its Kathmandu brand through the wholesale channel. We suspect COVID-19 has likely slowed progress; growth ambitions/priorities from here would be of interest.
- **Inventory position** — Supply chain congestion resulted in a lack of product depth over the summer period, but also limited industry discounting activity. We look for an update on stock levels and any signal of a return to normal promotional activity.
- **Dividends** — KMD is expected to provide an announcement regarding dividend resumption at its result; our 1H21E forecast is 2cps (FY21E 4cps).

Conference call at 10:30am NZT (8:30am AEDT) on Tuesday, 23 March 2021

Dial in details are 0800 453 055 for New Zealand (1800 558 698 for Australia); Conference ID 10012888. Participants can pre-register <https://s1.c-conf.com/diamondpass/10012888-t3oqev.html>.

Figure 1. 1H21E result expectations (NZ\$m)

	1H20	1H21E	% chg
Revenue	363.7	399.4	9.8%
EBITDA	68.3	79.0	15.6%
NPAT	8.1	8.5	4.0%
EPS	14.9	10.7	-28.1%
Interim DPS	-	2.0	n/a

Source: Forsyth Barr analysis

Figure 2. FY21E forecasts (NZ\$m)

	FY20	FY21E	% chg	Consensus
Revenue	801.5	922.8	15.1%	931.0
EBITDA	148.9	196.2	31.8%	n/a
NPAT	29.0	43.5	50.2%	61.9
EPS	4.5	6.7	50.2%	8.4
Interim DPS	-	4.0	n/a	4.8

Source: Bloomberg, Forsyth Barr analysis

Kathmandu (KMD)

Priced as at 16 Mar 2021 (NZ\$)

1.26

12-month target price (NZ\$)*

1.60

Expected share price return

27.0%

Net dividend yield

4.8%

Estimated 12-month return

31.7%

Spot valuations (NZ\$)

1. DCF

1.57

2. Sum of the parts

1.60

3. n/a

n/a

Key WACC assumptions

Risk free rate

2.30%

Equity beta

1.16

WACC

8.5%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

1,990

(Net debt)/cash

(9)

Less: Capitalised operating leases

961

Value of equity

1,019

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	538.9	801.5	922.8	993.8	1,033.0
Normalised EBITDA	99.6	148.9	196.2	233.8	248.2
Depreciation and amortisation	(15.3)	(103.0)	(121.8)	(119.1)	(116.8)
Normalised EBIT	84.3	45.9	74.4	114.7	131.4
Net interest	(2.9)	(23.4)	(11.8)	(10.1)	(8.8)
Associate income	0	0	0	0	0
Tax	(23.7)	(13.6)	(19.1)	(31.9)	(37.4)
Minority interests	0	0	0	0	0
Normalised NPAT	57.6	29.0	43.5	72.7	85.2
Abnormals/other	0	20.1	0	0	0
Reported NPAT	57.6	8.9	43.5	72.7	85.2
Normalised EPS (cps)	17.8	4.5	6.7	11.2	13.1
DPS (cps)	16.0	0	4.0	7.0	9.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	8.5	5.6	4.2	3.5	3.3
EV/EBIT (x)	10.0	18.2	11.1	7.1	6.2
PE (x)	7.1	28.2	18.8	11.2	9.6
Price/NTA (x)	7.3	8.8	6.4	4.7	3.9
Free cash flow yield (%)	5.6	18.3	14.6	20.5	19.7
Net dividend yield (%)	12.7	0.0	3.2	5.6	7.1
Gross dividend yield (%)	17.6	0.0	4.4	7.7	9.9

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	8.3	48.7	15.1	7.7	3.9
EBITDA (%)	10.9	49.5	31.8	19.2	6.2
EBIT (%)	13.0	-45.6	62.3	54.1	14.5
Normalised NPAT (%)	14.1	-49.7	50.2	67.0	17.1
Normalised EPS (%)	6.6	-74.9	50.2	67.0	17.1
Ordinary DPS (%)	6.7	-100.0	n/a	75.0	28.6

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	28.9	2.0	6.3	11.4	14.9
Interest cover EBITDA (x)	34.2	6.4	16.6	23.2	28.2
Net debt/ND+E (%)	4.2	1.2	-0.5	-6.3	-9.3
Net debt/EBITDA (x)	0.2	0.1	n/a	n/a	n/a

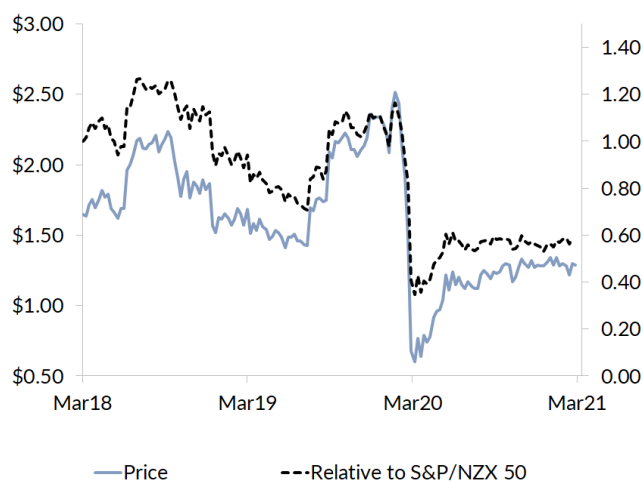
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	99.6	148.9	196.2	233.8	248.2
Working capital change	(8.2)	37.1	(15.7)	8.4	(6.6)
Interest & tax paid	(29.7)	(37.5)	(30.9)	(42.0)	(46.2)
Other	0	21.3	0	0	0
Operating cash flow	61.7	169.8	149.6	200.2	195.4
Capital expenditure	(15.7)	(19.9)	(30.5)	(32.8)	(34.1)
(Acquisitions)/divestments	(22.3)	(376.1)	0	0	0
Other	22.3	(76.6)	(92.6)	(88.7)	(84.9)
Funding available/(required)	46.0	(302.7)	26.6	78.7	76.4
Dividends paid	(33.9)	(27.2)	(13.0)	(32.5)	(51.9)
Equity raised/(returned)	0	340.6	0	0	0
(Increase)/decrease in net debt	12.1	10.7	13.6	46.2	24.5

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	14.2	2.9	4.7	7.3	8.4
Return on equity (%)	13.0	1.1	5.4	8.6	9.7
Return on funds employed (%)	12.9	5.2	6.6	10.1	11.5
EBITDA margin (%)	18.5	18.6	21.3	23.5	24.0
EBIT margin (%)	15.6	5.7	8.1	11.5	12.7
Capex to sales (%)	2.9	2.5	3.3	3.3	3.3
Capex to depreciation (%)	132	21	27	30	31
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	90	0	60	62	69

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	62.4	158.8	174.4	166.1	172.6
Fixed assets	60.3	90.7	95.7	101.6	107.2
Intangibles	386.1	682.6	677.2	672.0	667.0
Right of use asset	0	258.0	247.1	236.6	226.6
Other assets	5.0	7.8	7.8	7.8	7.8
Total funds employed	513.8	1,197.8	1,202.2	1,184.1	1,181.2
Net debt/(cash)	19.3	9.4	(4.2)	(50.5)	(75.0)
Lease liability	0	297.9	285.3	273.2	261.6
Other liabilities	52.4	111.3	111.3	111.3	111.3
Shareholder's funds	442.1	775.2	805.8	846.0	879.2
Minority interests	0	4.0	4.0	4.0	4.0
Total funding sources	513.8	1,197.8	1,202.2	1,184.1	1,181.2

Operating Performance	2019A	2020A	2021E	2022E	2023E
Divisional sales (NZ\$m)					
Outdoors	538.9	485.8	500.4	537.6	560.9
Rip Curl	0	315.7	422.4	456.2	472.1
Total store sales	538.9	801.5	922.8	993.8	1,033.0
Group gross margin	62%	58%	59%	60%	60%
Divisional EBITDA (NZ\$m)					
Outdoors	102.5	128.2	133.7	154.1	163.0
Rip Curl	0	35.2	67.6	84.9	90.5
Unallocated	(3.0)	(14.5)	(5.0)	(5.2)	(5.4)
Total EBITDA	99.6	148.9	196.2	233.8	248.2
Divisional EBITDA margin					
Kathmandu	19%	26%	27%	29%	29%
Rip Curl	n/a	11%	16%	19%	19%
Total store sales	18%	19%	21%	24%	24%

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

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
TA Universal	9.2%
Harbour Asset Management & Jarden Securities Limited	8.5%
Briscoe Group	6.8%
ACC	5.2%
New Zealand Superannuation Fund	5.0%

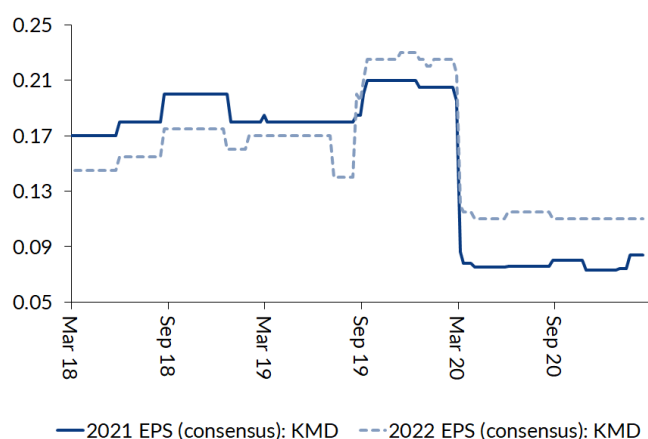
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

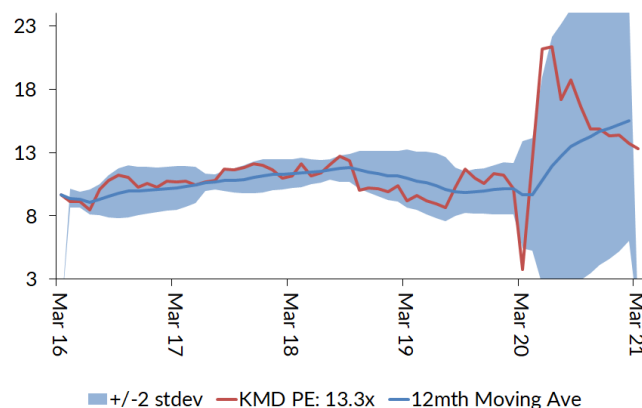
Company	Code	Price	Mkt Cap (m)	PE 2021E 2022E	EV/EBITDA 2021E 2022E	EV/EBIT 2021E 2022E	Cash Yld 2022E
(metrics re-weighted to reflect KMD's balance date - July)							
Kathmandu Holdings	KMD NZ	NZ\$1.26	NZ\$818	18.8x 11.2x	4.2x 3.5x	11.1x 7.2x	5.6%
SUPER RETAIL GROUP	SUL AT	A\$11.07	A\$2,500	9.2x 12.9x	4.1x 4.8x	7.0x 9.6x	5.0%
VF CORP	VFC US	US\$79.77	US\$31,247	49.6x 25.2x	29.5x 18.4x	40.4x 22.1x	2.5%
COLUMBIA SPORTSWEAR CO	COLM US	US\$106.95	US\$7,100	42.9x 24.1x	15.7x 13.9x	32.1x 18.2x	1.1%
DICK'S SPORTING GOODS INC	DKS US	US\$78.30	US\$7,016	13.8x 14.8x	8.5x 8.9x	12.4x 13.1x	1.9%
PREMIER INVESTMENTS	PMV AT	A\$23.47	A\$3,729	17.2x 21.0x	8.6x 9.8x	13.0x 16.0x	3.7%
MICHAEL HILL INTL *	MHJ NZ	A\$0.70	A\$272	7.2x 8.5x	2.4x 2.6x	4.5x 5.2x	7.1%
BRISCOE GROUP *	BGP NZ	NZ\$5.81	NZ\$1,293	17.3x 17.2x	8.3x n/a	10.2x n/a	n/a
THE WAREHOUSE GROUP *	WHS NZ	NZ\$3.38	NZ\$1,172	7.8x 12.4x	2.6x 3.1x	4.3x 6.0x	5.3%
Compco Average:				20.6x 17.0x	9.9x 8.8x	15.5x 12.9x	3.8%
KMD Relative:				-9% -34%	-58% -60%	-28% -44%	47%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (KMD) 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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