

# Briscoe Group

## 1Q21 Sales Checkout

**GUY HOOPER**

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

### RESEARCH INSIGHTS

Briscoe Group (BGP) was tracking well in the lead up to Alert Level 4, before sales fell away as store doors temporarily closed from 26 March. The outlook for BGP and the retail sector is opaque, with the full extent of the impact of lockdown policies unclear, and consumer appetite for bricks & mortar shopping through lower Alert Levels uncertain. In addition, the deteriorating economic outlook may weigh on medium-term growth. BGP is well positioned to weather near-term turbulence with a solid track record and a strong balance sheet.

NZX Code	BGP	Financials: Jan/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.15	NPAT* (NZ\$m)	40.7	29.6	49.3	55.4	EV/EBITDA	6.1	8.3	5.6	5.2
Issued shares	221.1m	EPS* (NZc)	27.4	13.4	22.3	25.0	EV/EBIT	8.3	12.1	7.6	6.9
Market cap	NZ\$696m	EPS growth* (%)	-4.5	-51.2	66.7	12.3	PE	11.5	23.5	14.1	12.6
Avg daily turnover	25.6k (NZ\$88k)	DPS (NZc)	21.0	7.0	18.5	22.0	Price / NTA	2.3	2.1	2.0	1.9
		Imputation (%)	100	100	100	100	Cash div yld (%)	6.7	2.2	5.9	7.0
		*Based on normalised profits					Gross div yld (%)	9.3	3.1	8.2	9.7

#### 1Q21 a tale of two halves

For the period to 24 March 2020, BGP group sales were up +4% on the prior year period, ahead of our prior full year run rate. Unsurprisingly, sales fell away as New Zealand entered lockdown, with BGP announcing 1Q21 sales of NZ\$97.0m, down -36% on the prior year period.

With online channels having resumed trading, volume has surged with recent trading days surpassing previous online sales peaks. Prior to COVID-19 online penetration was ~11% of group sales. Although online penetration has increased materially, it is not a significant offset to door closures.

#### Outlook opaque

At this stage the outlook remains opaque with limited insight into trading through the lower Alert Levels. 1H21 guidance commentary of a modest profit, whilst paying the majority of staff 100% of wages, suggests significant cost control measures, partially enabled by the Government wage subsidy in addition to negotiations with landlords and suppliers. When New Zealand shifts to Alert Level 2 we expect elevated discounting across the retail sector as companies look to clear higher than usual stock levels. We expect this to weigh on gross margin.

Post COVID-19, and once the economic implications of New Zealand's lockdown measures become apparent, parallels to the Global Financial Crisis (GFC) become more relevant. Although BGP has a solid track record, we are cautious on the medium-term outlook with both Homeware and Rebel Sport posting significant same store sales (SSS) declines during the GFC, down -6% and -15% respectively in FY09.

#### Earnings changes

We have made material downgrades to our earnings forecasts reflecting store closures and a reduced operating capacity in lower Alert Levels. Providing some offset are significant cost control measures, including a Government wage subsidy of NZ\$11.4m. In light of trading conditions we no longer assume an interim dividend.

**Briscoe Group Limited (BGP)**

Priced as at 01 May 2020 (NZ\$)

**3.15**
**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.

<b>Profit and Loss Account (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	638.9	662.7	571.5	658.4	685.7	EV/EBITDA (x)	6.6	6.1	8.3	5.6	5.2
<b>Normalised EBITDA</b>	<b>92.8</b>	<b>102.7</b>	<b>74.6</b>	<b>109.1</b>	<b>117.9</b>	EV/EBIT (x)	7.2	8.3	12.1	7.6	6.9
Depreciation and amortisation	(6.8)	(27.4)	(23.2)	(28.2)	(28.7)	PE (x)	11.0	11.5	23.5	14.1	12.6
<b>Normalised EBIT</b>	<b>86.0</b>	<b>75.3</b>	<b>51.4</b>	<b>80.9</b>	<b>89.2</b>	Price/NTA (x)	2.6	2.3	2.1	2.0	1.9
Net interest	0.6	(12.9)	(10.3)	(12.4)	(12.3)	Free cash flow yield (%)	6.3	8.7	6.5	9.8	11.4
Associate income	0	0	0	0	0	Net dividend yield (%)	6.3	6.7	2.2	5.9	7.0
Tax	(23.2)	(21.7)	(11.5)	(19.2)	(21.5)	Gross dividend yield (%)	8.8	9.3	3.1	8.2	9.7
Minority interests	0	0	0	0	0						
<b>Normalised NPAT</b>	<b>63.4</b>	<b>40.7</b>	<b>29.6</b>	<b>49.3</b>	<b>55.4</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other	0	2.7	0	0	0	Interest cover EBIT (x)	n/a	5.8	5.0	6.5	7.3
<b>Reported NPAT</b>	<b>63.4</b>	<b>43.4</b>	<b>29.6</b>	<b>49.3</b>	<b>55.4</b>	Interest cover EBITDA (x)	n/a	8.0	7.2	8.8	9.6
Normalised EPS (cps)	28.7	27.4	13.4	22.3	25.0	Net debt/ND+E (%)	-42.1	-27.6	-33.2	-36.4	-41.7
DPS (cps)	20.0	21.0	7.0	18.5	22.0	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	4.5	3.7	-13.8	15.2	4.2	Return on assets (%)	23.6	10.8	7.3	11.0	11.8
EBITDA (%)	3.6	10.7	-27.4	46.3	8.1	Return on equity (%)	23.2	13.0	8.8	13.9	14.9
EBIT (%)	3.2	-12.4	-31.7	57.4	10.2	Return on funds employed (%)	34.7	24.5	16.1	24.2	25.9
Normalised NPAT (%)	3.4	-35.9	-27.2	66.7	12.3	EBITDA margin (%)	14.5	15.5	13.0	16.6	17.2
Normalised EPS (%)	1.5	-4.5	-51.2	66.7	12.3	EBIT margin (%)	13.5	11.4	9.0	12.3	13.0
Ordinary DPS (%)	5.3	5.0	-66.7	>100	18.9	Capex to sales (%)	3.4	2.9	3.0	2.3	1.6
						Capex to depreciation (%)	318	70	74	54	39
						Imputation (%)	100	100	100	100	100
<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	Pay-out ratio (%)	70	77	52	83	88
<b>EBITDA</b>	<b>92.8</b>	<b>102.7</b>	<b>74.6</b>	<b>109.1</b>	<b>117.9</b>						
Working capital change	(3.4)	10.9	9.9	5.9	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)	(21.8)	(31.6)	(33.8)	<b>Divisional revenue (NZ\$m)</b>					
Other	0	2.8	0	0	0	Homeware	403	411	356	407	425
<b>Operating cash flow</b>	<b>65.7</b>	<b>79.5</b>	<b>62.7</b>	<b>83.5</b>	<b>91.0</b>	Rebel Sport	229	242	209	244	253
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>572</b>	<b>658</b>	<b>686</b>
Other	0	(16.3)	(13.9)	(16.2)	(16.2)						
<b>Funding available/(required)</b>	<b>43.5</b>	<b>30.5</b>	<b>31.5</b>	<b>52.1</b>	<b>63.5</b>	<b>Gross profit (NZ\$m)</b>	<b>253</b>	<b>258</b>	<b>208</b>	<b>252</b>	<b>262</b>
Dividends paid	(43.1)	(45.5)	(15.5)	(40.9)	(48.6)						
Equity raised/(returned)	2.2	1.6	0	0	0	<b>Gross margins (%)</b>					
<b>(Increase)/decrease in net debt</b>	<b>2.6</b>	<b>(13.4)</b>	<b>16.1</b>	<b>11.2</b>	<b>14.9</b>	Homeware	40.2	39.5	37.0	39.0	39.0
						Rebel Sport	39.9	39.3	36.5	38.0	38.0
<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Group</b>	<b>39.7</b>	<b>38.9</b>	<b>36.4</b>	<b>38.2</b>	<b>38.2</b>
Working capital	0.1	9.7	6.8	7.9	8.3						
Fixed assets	92.0	97.3	107.3	114.3	116.8	<b>Divisional EBIT (NZ\$m)</b>					
Intangibles	2.5	3.5	3.5	3.5	3.5	Homeware	47	49	28	46	48
Right of use asset	0	266.0	266.0	266.0	266.0	Rebel Sport	31	36	22	34	35
Other assets	105.4	171.2	171.2	171.2	171.2	Other	8	-11	2	1	6
<b>Total funds employed</b>	<b>200.0</b>	<b>547.6</b>	<b>554.7</b>	<b>562.8</b>	<b>565.7</b>	<b>Total EBIT</b>	<b>86</b>	<b>75</b>	<b>51</b>	<b>81</b>	<b>89</b>
Net debt/(cash)	(80.3)	(66.4)	(82.5)	(93.6)	(108.5)						
Lease liability	0	296.4	296.4	296.4	296.4	<b>EBIT Margins (%)</b>					
Other liabilities	7.6	5.7	5.7	5.7	5.7	Homeware	11.6	12.0	7.8	11.2	11.3
Shareholder's funds	272.7	311.9	335.0	354.3	372.0	Rebel Sport	13.6	15.1	10.6	13.9	14.0
Minority interests	0	0	0	0	0	<b>Group</b>	<b>13.5</b>	<b>11.4</b>	<b>9.0</b>	<b>12.3</b>	<b>13.0</b>
<b>Total funding sources</b>	<b>200.0</b>	<b>547.6</b>	<b>554.7</b>	<b>562.8</b>	<b>565.7</b>						

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

## Earnings changes

We have made significant downgrades to our near-term earnings outlook, although note the significant level of uncertainty in the retail sector.

We lower our FY21E revenue assumption, reflecting seven full weeks of store closures, including three weeks at Alert Level 3 (where online channels are open). We also assume a period of 16 weeks at Alert Level 2, with social distancing limitations in store impacting operating capacity, offset to some extent by higher online sales penetration. Our FY21E forecasts also assume significant temporary reductions in BGP's fixed operating cost base.

**Figure 1. Earnings revisions (NZ\$m)**

	FY21E			FY22E			FY23E		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	672.8	571.5	-15.0%	694.5	658.4	-5.2%	705.1	685.7	-2.8%
EBIT	96.4	51.4	-46.7%	99.3	80.9	-18.6%	97.2	89.2	-8.3%
NPAT	60.4	29.6	-51.0%	62.6	49.3	-21.2%	61.2	55.4	-9.5%
EPS	27.3	13.4	-51.0%	28.3	22.3	-21.2%	27.7	25.0	-9.5%
DPS	22.0	7.0	-68.2%	23.0	18.5	-19.6%	24.0	22.0	-8.3%

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. The full extent of lockdown policies impact on earnings, and the consumer appetite once doors re-open, remain unknown. In addition, the economic backdrop has deteriorated materially, which is likely to weigh on sales growth over medium-term. 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.

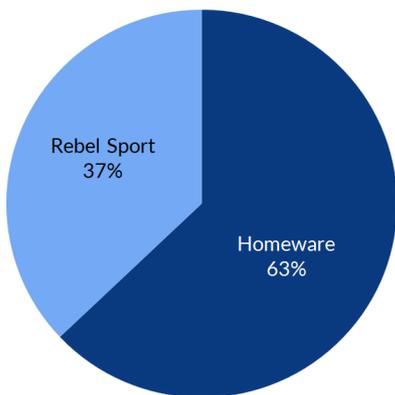
### Financial structure

- **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%. We expect dividends to be under pressure across the retail sector as companies weather the impacts of lockdown policies.

### Risk factors

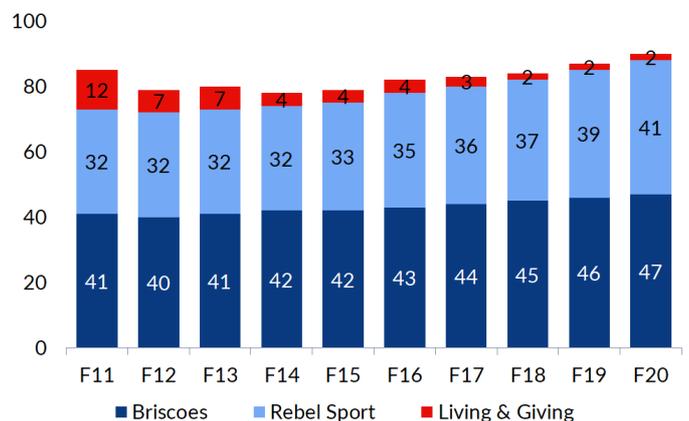
- **Consumer sentiment and retail backdrop:** Deterioration in economic conditions, the housing market and/or consumer confidence as well as pressure from online competition and increased wage costs.
- **Key person risk Rod Duke:** BGP's CEO has been with the company since 1988 and has been an integral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

Figure 2. Divisional revenue breakdown (FY20)



Source: Company reports, Forsyth Barr analysis

Figure 3. Store footprint



Source: Company reports, Forsyth Barr analysis

**Figure 4. Price performance**



Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
RA Duke Trust	77.8%

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

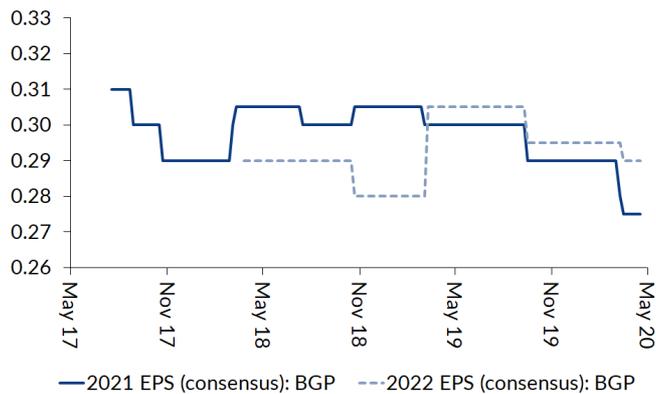
**Figure 6. International valuation comparisons**

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\$3.15	NZ\$696	23.5x	14.1x	8.4x	5.8x	12.2x	7.8x	5.9%
Kathmandu Holdings *	KMD NZ	NZ\$0.74	NZ\$525	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Michael Hill Intl *	MHJ NZ	A\$0.33	A\$126	27.2x	25.1x	4.8x	4.9x	14.5x	13.6x	12.8%
Restaurant Brands NZ *	RBD NZ	NZ\$12.00	NZ\$1,497	>50x	42.6x	22.6x	14.5x	55.1x	26.4x	0.0%
The Warehouse Group *	WHS NZ	NZ\$2.15	NZ\$746	9.6x	8.2x	4.6x	4.1x	7.1x	6.1x	9.2%
SUPER RETAIL GROUP	SUL AT	A\$5.84	A\$1,154	9.6x	8.7x	6.3x	5.9x	11.8x	10.8x	7.5%
HARVEY NORMAN HOLDINGS	HVN AT	A\$2.78	A\$3,464	12.0x	11.1x	8.3x	7.9x	11.3x	10.7x	7.5%
ACCENT GROUP	AX1 AT	A\$1.17	A\$632	15.6x	12.7x	9.0x	7.9x	17.7x	13.6x	6.2%
<b>Compcp Average:</b>				<b>14.8x</b>	<b>18.1x</b>	<b>9.3x</b>	<b>7.5x</b>	<b>19.6x</b>	<b>13.5x</b>	<b>7.2%</b>
<b>BGP Relative:</b>				<b>59%</b>	<b>-22%</b>	<b>-9%</b>	<b>-23%</b>	<b>-38%</b>	<b>-43%</b>	<b>-18%</b>

EV = Current Market Cap + Actual Net Debt

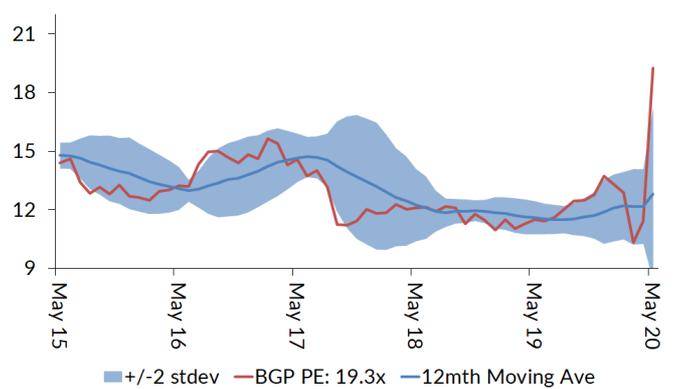
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compcp metrics re-weighted to reflect headline (BGP) companies fiscal year end

**Figure 7. Consensus EPS momentum (NZ\$)**



Source: Forsyth Barr analysis

**Figure 8. 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 1 May 2020, Forsyth Barr's research ratings were distributed as follows:

<b>OUTPERFORM</b>	<b>NEUTRAL</b>	<b>UNDERPERFORM</b>
<b>43.1%</b>	<b>43.1%</b>	<b>13.7%</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 within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: KMD

**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.