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Premier Investments (PMV)

Strong momentum entering 2H21

Recommendation
Hold (unchanged)
Price
$23.22
Target (12 months)
$25.00 (previously $23.90)

GICS Sector

Retailing

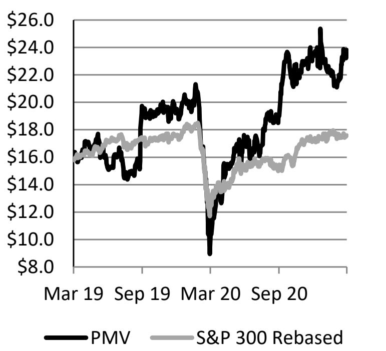
Expected Return	
Capital growth	**7.6%**
Dividend yield	**3.7%**
Total expected return	**11.3%**

Company Data & Ratios	
Enterprise value	**$3,609m**
Market cap	**$3,691m**
Issued capital	**159.0m**
Free float	**~61%**
Avg. daily val. (52wk)	**$7.2m**
12 month price range	**$8.13 - $26.70**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	21.67	24.00	10.37
Absolute (%)	9.92	-0.75	129.70
Rel market (%)	11.55	-1.12	86.97

Absolute Price



SOURCE: IRESS

Strong 1H21 result as flagged, 2H21 also off to a strong start

PMV announced a strong 1H21 result ahead vs its 13 January update, with EBIT (pre-AASB16) lifting 88.5% vs pcp to $237.8m (vs guidance $221m-$233m). The uplift was mostly driven by margin gains (gross margin +286bps, CODB/sales -870bps) reflecting online acceleration (higher margin channel), Peter Alexander outperformance (higher margin brand), reduced promotions and opex leverage on tight cost controls. Sales performance was also robust, increasing 7.2% despite store closures, with global like-for-like sales (ex. store closures) up 18.2% (within this online sales lifted 61% vs pcp). Partially offsetting these positives, Smiggle sales fell 26.5% due to COVID disruptions.

With headline numbers pre-released, we highlight the following key new information:

- **Strong momentum has continued into 2H21**: Global LFL sales (i.e. ex. store closures) up 32.1% & gross margin up 379bps for first 7 weeks of 2H21. Growth continues to be underpinned by Peter Alexander, online and the Apparel brands.
- **Rent rebased down 318bps**: PMV has reached agreement with key landlords that has **rebased rent at 12.7% of 1H21 sales**, down 318bps vs pcp. This result is ahead vs BPe and will further enhance PMV's opex leverage moving forward.
- **Offshore opportunity for Peter Alexander**: Given consistent outperformance, PMV was upbeat on the offshore growth potential for Peter Alexander (designer-led brand in demand), although we see this more of a late-FY22 / FY23 decision.
- **Strong balance sheet**: At end-1H21 PMV had net cash of $350.5m which includes $497.2m in free cash held by PMV outside the Just Group. In addition, PMV's investment stake in BRG has a current market value in the region of ~$1b.

Earnings changes / Investment View: Retain Hold, PT $25.00

We have strengthened sales and reduced our rent expense assumptions. Net effect is our FY21/FY22/FY23 EPS increase by 4.8%/10.8%/8.8%. Our PT increases to $25.00 (previously $23.90). We recently downgraded our rating to Hold following the 13 Jan update. While today's update reveals several positive developments (as noted above), we are reluctant to upgrade given the continued reduced visibility on Smiggle's growth profile, an anticipated normalisation in earnings, & based on valuation. Hold retained.

Earnings Forecast

Jul Year end	2020a	2021e	2022e	2023e
Just Group Sales (A$m)	1,216.3	1,399.2	1,382.3	1,455.1
Total Group Revenue (A$m)	1,246.7	1,401.1	1,384.2	1,457.9
EBITDA (A$m)	442.0	515.4	432.2	440.3
NPAT (reported) (A$m)	137.8	260.8	206.7	218.5
NPAT (underlying) (A$m)	171.4	251.7	206.7	218.5
EPS underlying (cps)	107.4	158.3	130.0	137.4
EPS underlying growth (%)	33.6%	47.5%	-17.9%	5.7%
PER (on underlying EPS) (x)	21.6	14.7	17.9	16.9
EV/EBITDA (x)	8.2	7.0	8.4	8.2
Dividend (¢ps)	70.0	72.8	89.8	96.5
Yield (%)	3.0%	3.1%	3.9%	4.2%
Franking (%)	100%	100%	100%	100%
ROE (%)	12.6%	17.7%	13.8%	14.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Premier Investments

Company Description

Premier Investments (PMV) is an investment company whose major investment is in clothing retailer Just Group. Just Group operates specialty retail brands Just Jeans, Jay Jays, Portman's, Jacqui E, Peter Alexander, Dotti and Smiggle. Just Group currently operates over 1,200 stores globally including approximately 60 stores in South Africa via a joint Venture. PMV also has major stakes in Breville group (BRG) and Myer Holdings (MYR) as well as c$170m in cash excluding non-recourse debt held within the Just group.

Investment Strategy

PMV aims to maximise long term growth in capital returns to shareholders through being an owner/manager of Australian focused companies with a particular concentration on the areas of retailing, importing and distributing. We believe PMV's strategy will succeed in the face of increasing competition from global brands in fast-fashion retailing. A key potential catalyst remains the utilisation of their cash and franking credits in the form of an acquisition or capital management. We have a Hold recommendation.

Valuation

Our blended 12-month PT is $25.00. Our SOTP (EV/EBITDA basis) is $25.72, while our DCF is $24.28 (WACC of 9.9%). We take a simple average to derive our price target.

Risks

Key downside risks to our valuation include (but are not limited to):

- **COVID-19**: The substantial impact of COVID-19 on the global and domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.
- **Slowdown in consumer spending and rise in unemployment** - Just Group's product portfolio is mainly clothing and accessories which are highly discretionary items.
- **Rising competition from international peers** – Impingement of market share arising from increased competition from global retailers such as Zara, Top Shop and H&M.
- **Brand positioning and product offering** – It is crucial to keep up with the latest fashion trends and right product mix for the targeted customer group. Failure to do so can result in declining sales and loss of customer loyalty.
- **Unseasonal weather** – Unseasonal weather results in a miss-match between in-store product offering and weather conditions, reducing demand.
- **Movements in the foreign exchange rates** - PMV directly imports 60% to 70% of their products from overseas. The greatest currency sensitivity is to the AUD/USD.
- **Supply chain risks –** Fast-retailing is highly dependent on efficiently getting product to market. Delays in supply chain could result in product missing key seasonal periods.
- **Management risk** - Loss of Just Group Management. Key person risk in PMV Chairman, Solomon Lew who has substantial retail experience.
- **Acquisition risk** – Potential oversights during the due diligence process, strategic fit with broader PMV portfolio, integration risk and multiple.

Premier Investments
as at 24 March 2021

Recommendation	Hold
Price	$23.22
Target (12 months)	$25.00

Table 1 - Financial summary

Jul Year end	2018	2019	2020	2021e	2022e	2023e
Profit & Loss (A$m)						
Just Group Sales	1,182.2	1,271.0	1,216.3	1,399.2	1,382.3	1,455.1
. . . Change	8.2%	7.5%	-4.3%	15.0%	-1.2%	5.3%
Other rev/income	3.2	0.7	30.4	1.9	1.8	2.8
Total Group Revenues	1,185.4	1,271.7	1,246.7	1,401.1	1,384.2	1,457.9
. . . Change	8.3%	7.3%	-2.0%	12.4%	-1.2%	5.3%
EBITDA	171.4	193.5	442.0	515.4	432.2	440.3
. . . Change	10.2%	12.9%	128.4%	16.6%	-16.1%	1.9%
Deprec. & amort.	(28.9)	(30.9)	(216.4)	(180.7)	(184.1)	(186.1)
EBIT	142.5	162.5	225.6	334.7	248.1	254.2
Net Interest	(3.9)	(3.8)	(14.4)	(6.6)	1.7	3.5
Pre-tax profit	138.6	158.7	211.2	328.0	249.8	257.7
Tax expense	(40.5)	(49.9)	(57.4)	(101.5)	(75.0)	(76.9)
. . . tax rate	29%	31%	27%	31%	30%	30%
Associates	16.1	18.9	17.7	25.2	31.8	37.7
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	**114.1**	**127.8**	**171.4**	**251.7**	**206.7**	**218.5**
. . . Change	5.1%	12.0%	34.2%	46.8%	-17.9%	5.7%
Abs. & extras.	(30.5)	(21.0)	(33.7)	9.1	-	-
Reported Profit	**83.6**	**106.8**	**137.8**	**260.8**	**206.7**	**218.5**
Assumed AASB16 adjustment to Underlying EBITDA			(183.5)	(167.3)	(169.9)	(174.3)
Underlying EBITDA (Pre-AASB16)			258.5	348.1	262.3	266.0
Cashflow (A$m)						
EBITDA	171.4	193.5	442.0	515.4	432.2	440.3
Working capital changes	(3.4)	(15.9)	134.3	(89.7)	(12.3)	(4.5)
Net Interest Expense	(3.5)	(4.0)	(3.0)	(2.7)	1.7	3.5
Tax	(46.1)	(44.9)	(16.8)	(155.4)	(76.0)	(76.9)
Other operating items	15.5	10.1	(72.9)	38.7	0.0	6.5
Operating Cash Flow	**133.9**	**138.8**	**483.6**	**306.3**	**345.6**	**369.1**
Capex	(53.2)	(19.6)	(7.3)	(8.8)	(17.3)	(18.2)
Free Cash Flow	**80.7**	**119.2**	**476.3**	**297.5**	**328.3**	**350.8**
Acquisitions	-	(7.9)	-	-	-	-
Disposals	0.3	-	-	-	-	-
Payment of leases	-	-	(151.0)	(158.8)	(161.3)	(165.4)
Dividends paid	(88.5)	(104.5)	(58.6)	(165.2)	(135.5)	(150.2)
Other investing items	12.2	11.9	14.0	7.4	-	-
Equity	-	-	-	-	-	-
Core debt increase/(reduction)	**2.0**	**(8.0)**	**(21.0)**	**68.0**	**(31.5)**	**(35.2)**
Balance Sheet (A$m)						
Cash	178.6	190.3	448.8	257.9	287.1	319.9
Receivables	21.6	23.0	30.3	24.6	24.6	26.0
Inventories & WIP	159.3	171.2	156.6	153.8	166.1	175.4
Other current assets	27.3	20.8	10.5	11.7	11.7	11.7
Current Assets	**386.8**	**405.2**	**646.3**	**448.1**	**489.5**	**533.0**
Receivables	-	-	-	-	-	-
Assoc & investments	223.2	238.7	257.4	276.4	308.2	346.0
Fixed Assets (PP&E)	238.2	210.9	155.1	141.3	130.8	123.2
Right-of-use Assets	-	-	231.8	212.4	217.6	223.2
Intangibles	825.9	826.6	826.9	827.0	827.0	826.9
Other mom-curr assets	77.3	87.3	85.1	90.3	90.3	90.3
Non Current Assets	**1,364.6**	**1,363.5**	**1,556.3**	**1,547.3**	**1,573.8**	**1,609.6**
Total Assets	**1,751.4**	**1,768.7**	**2,202.5**	**1,995.4**	**2,063.4**	**2,142.6**
ST and LT Debt (incl. Leases)	175.7	167.5	450.5	242.9	247.2	-
Creditors	84.6	81.9	209.0	110.7	110.7	-
Provisions	95.2	111.8	180.5	171.0	171.0	-
Other liabilities	51.1	58.2	15.1	28.8	28.8	-
Total Liabilities	**406.5**	**419.4**	**855.1**	**553.5**	**557.8**	**-**
Net Assets	**1,344.9**	**1,349.3**	**1,347.4**	**1,441.9**	**1,505.6**	**2,142.6**
Share Capital	608.6	608.6	608.6	608.6	608.6	608.6
Reserves	(16.0)	(10.9)	(37.8)	(44.3)	(44.3)	(44.3)
Retained Earnings	752.3	751.5	776.7	877.6	941.3	1,003.2
Shareholders Equity	**1,344.9**	**1,349.3**	**1,347.4**	**1,441.9**	**1,505.6**	**1,567.4**
Outside Equity Interests	-	-	-	-	-	-
Total Equity	**1,344.9**	**1,349.3**	**1,347.4**	**1,441.9**	**1,505.6**	**1,567.4**
Core Net debt/(cash) $m	(2.9)	(22.8)	(302.2)	(282.5)	(314.0)	(349.2)
Net debt/(cash) [incl. leases] $m	(2.9)	(22.8)	1.7	(15.0)	(39.9)	(68.1)

Price	$23.22
Recommendation	Hold
Diluted issued capital (m)	159.0
Market cap ($m)	3,691.4
Target Price (A$ps)	$ 25.00

Jul Year end	2018	2019	2020	2021e	2022e	2023e
Valuation Ratios						
Underlying EPS (¢ps)	71.8	80.4	107.4	158.3	130.0	137.4
. . . % change	4.9%	11.9%	33.6%	47.5%	-17.9%	5.7%
PE (on underlying EPS) (x)	32.3	28.9	21.6	14.7	17.9	16.9
EV/EBITDA (x)	21.06	18.65	8.17	7.00	8.35	8.20
EV/EBIT (x)	25.33	22.21	16.00	10.78	14.54	14.20
NTA ($ps)	3.26	3.29	3.27	3.87	4.27	4.66
P/NTA (x)	7.11	7.07	7.09	6.00	5.44	4.99
Book Value ($ps)	8.46	8.48	8.47	9.07	9.47	9.86
Price/Book (x)	2.74	2.74	2.74	2.56	2.45	2.36
DPS (¢ps)	62.0	70.0	70.0	72.8	89.8	96.5
. . . % pay-out	85.8%	86.7%	64.8%	46.0%	69.0%	70.2%
Special DPS (¢ps)	-	-	-	-	-	-
Yield (%)	2.7%	3.0%	3.0%	3.1%	3.9%	4.2%
Franking (%)	100%	100%	100%	100%	100%	100%
Performance Ratios						
Revenue growth (%)	8.3%	7.3%	-2.0%	12.4%	-1.2%	5.3%
EBITDA growth (%)	10.2%	12.9%	128.4%	16.6%	-16.1%	1.9%
EBITDA/sales margin (%)	14.5%	15.2%	35.5%	36.8%	31.2%	30.2%
EBIT/sales margin (%)	12.0%	12.8%	18.1%	23.9%	17.9%	17.4%
Gross cash conversion (%)	97.9%	88.4%	109.5%	85.9%	90.5%	92.5%
Free cash-flow yield (%)	2.2%	3.2%	12.8%	8.1%	8.9%	9.5%
ROE (%)	8.4%	9.4%	12.6%	17.7%	13.8%	14.0%
ROIC (%)	8.7%	9.9%	15.1%	23.4%	17.5%	17.9%
Capex/Depn (x)	1.8	0.6	0.2	0.3	0.6	0.7
Net interest cover (x)	36.4	42.8	15.6	50.5	n/a	n/a
Core Net Debt/EBITDA (pre-AASB16) (x)	n/a	n/a	n/a	n/a	n/a	n/a
Net debt/equity (%)	-0.2%	-1.7%	0.1%	-1.0%	-2.7%	-4.3%
Net debt/net debt + equity (%)	-0.2%	-1.7%	0.1%	-1.0%	-2.7%	-4.5%
Component Contribution						
Just Group sales rev	1,182.2	1,271.0	1,216.3	1,399.2	1,382.3	1,455.1
Other Just Group rev	1.4	0.7	1.3	1.9	1.8	1.9
MYR dividend income	1.8	-	-	-	-	0.9
Corp./elimin. sales	-	-	29.1	-	-	-
Total Revenue (A$m)	**1,185.4**	**1,271.7**	**1,246.7**	**1,401.1**	**1,384.2**	**1,457.9**
Just Group EBIT	150.1	167.3	187.2	324.1	234.6	239.4
Other/corp/elim. EBIT	(7.6)	(4.8)	38.4	10.6	13.6	14.8
Total EBIT (ex. Associates) (A$m)	**142.5**	**162.5**	**225.6**	**334.7**	**248.1**	**254.2**

Half yearly (A$m)	1H19	2H19	1H20	2H20	1H21	2H21e
Sales revenue	680.5	591.2	732.5	514.1	785.9	615.2
EBITDA	127.2	66.3	237.4	204.6	330.8	184.7
Deprec. & amort.	(15.6)	(15.4)	(101.6)	(114.8)	(89.1)	(91.7)
EBIT	111.6	50.9	135.8	89.9	241.7	93.0
Interest expense	(2.0)	(1.8)	(7.8)	(6.6)	(5.5)	(1.1)
Pre-tax profit	109.6	49.1	127.9	83.3	236.1	91.9
Tax expense	(33.0)	(16.8)	(37.2)	(20.3)	(74.0)	(27.6)
. . . tax rate	30%	34%	29%	24%	31%	30%
Associates	12.2	6.7	13.9	3.8	16.9	8.3
Minorities	-	-	-	-	-	-
Underlying Net Profit	**88.8**	**39.0**	**104.6**	**66.8**	**179.0**	**72.6**
Abs. & extras.	-	(21.0)	(5.0)	(28.6)	9.1	-
Reported Profit	**88.8**	**18.0**	**99.6**	**38.1**	**188.2**	**72.6**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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