23 July 2021

Viva Leisure Limited (VVA) BUY Share Price: A$1.80

Vaccine heavy lifting to turbocharge earnings Target Price: A$3.50

VVA provided a trading update for June showing a continuation of underlying improvement in member numbers and revenue in 2H21, January to June 2021, versus 1H21. The business was generating A$8m monthly or ~A$95m annualised revenues driven by new openings, organic member growth and increased utilisation. Whilst Viva currently have 32% of its corporate owned gyms in lockdown across NSW and Victoria, the momentum preceding lockdowns and the strong operating margins across mature club portfolio (34% ex. corporate overheads) vs those opened during COVID highlights the significant untapped earnings potential. We reiterate our BUY recommendation with >90% upside to our A$3.50 12 month target price.

Trading well ex-lockdown; mature clubs a standout

- VVA reported continuation of solid momentum through June 2021 and 2H21 on the first half with monthly revenues through March to June sustaining >A$8m.
- Operating margins in mature gyms (opened for more than 12 months) was stable at 34.4% and those opened during COVID periods. i.e. less than 12 months were negative 7% and made up ~30% of portfolio, showing significant earnings upside potential as vaccines roll out.
- VVA's pricing review will see new members at HiiT republic charged A$34.90 per week for membership) to start FY21 (~$30 previously) helping to drive accelerated earnings ramp up and better margins.
- In terms of outlook, Viva had 115 corporate locations open by June and 21 new gyms planned for FY22 with 11 in QLD & ACT and 9 across VIC and NSW. 32% (38) of VVA's corporate locations are not operating due to COVID-19 lockdowns in NSW (21) & VIC (17).

VVA at the base of an earnings mountain

- Our estimates imply material EPS growth, +185% CAGR from FY21 to FY23, driven by improving utilisation, scale economies and growth in new gyms.
- Whilst lockdowns are an obvious risk to our forecasts, we await evidence of an entrenched pattern given Australia's full vaccinations rate increased to 11.5% in July 20 vs. June 22nd: 4%, with adoption accelerating.

Discount to peers likely to mean revert

- Our target price remains at A$3.50 and continues to be based on a 50/50 P/E (A$3.27) and DCF (A$3.65).
- VVA is trading at a ~50% discount to peers on 20x FY23 P/E despite offering vastly superior EPS growth.
- With more than 90% upside to our A$3.50 target price, we reiterate our Buy recommendation.

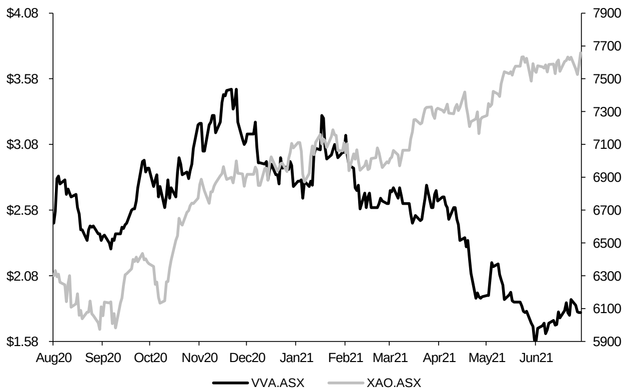
Company Data

Shares – ordinary (M)	82
Dilution (M)	3.1
Total (fully diluted) (M)	85.0
Market capitalisation ($M)	147.5
12 month low/high ($)	1.55/ 3.66
Average monthly turnover ($M)	11
GICS Industry	Hotels, Restaurants & Leisure

Financial Summary (fully diluted/normalised)

Year end Jun	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue ($M)	33.1	40.9	82.3	115.4	141.7
Costs ($M)	-25.9	-34.8	-69.1	-90.8	-103.7
EBITDA ($M)	7.2	6.1	13.2	24.6	38.0
NPAT ($M)	3.1	1.430	1.9	7.9	15.5
EPS (¢ps)	5.5	2.4	2.2	9.3	18.2
EPS Growth (%)	na	-57%	-6%	316%	96%
PER (x)	32.5	na	80.6	19.4	9.9
Free Cashflow ($M)	3.4	-13.7	-8.2	6.2	16.0
FCFPS (¢ps)	4.2	-16.7	-10.1	7.5	19.5
P/FCFPS (x)	43.2	-10.8	-17.9	23.9	9.2
Enterprise Value ($M)	141.1	125.4	128.3	126.9	116.4
EV / EBITDA (x)	19.6	20.7	9.7	5.2	3.1
Payout ratio (%)	0.0	0.0	50.0	50.0	50.0
Dividends (¢ps)	0.0	0.0	2.0	4.0	10.0
Yield (%)	0.0	0.0	1.1	2.2	5.6
Franking (%)	na	na	100.0	100.0	100.0

VVA – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was co-manager for this company's placement to raise $30m at $2.90/sh on 27th November 2020 for which a fee was received.

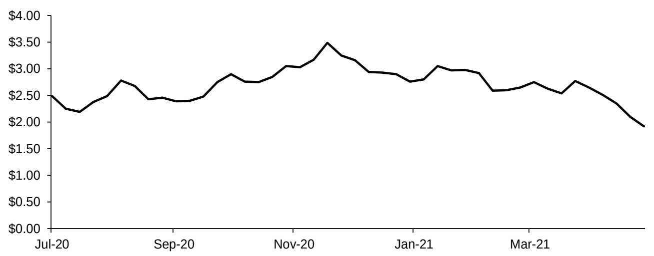
Analysis

Viva Leisure Ltd

Year end 30 June

MARKET DATA		
Recommendation		Buy
Price	**$**	**1.80**
Target price (12-month)	**$**	**3.50**
52 week low / high	$	1.55 / 3.66
Market capitalisation	**$m**	**147.5**
Shares on issue (basic)	no.	82.0
Options / rights	no.	3.1
Other equity	no.	0.0
Shares on issue (diluted)	no.	85.0

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		FY19A	FY20A	FY21F	FY22F	FY23F
NPAT (reported)	$m	2.2	1.4	1.9	7.9	15.5
NPATA (pro forma)	**$m**	**3.1**	**1.4**	**1.9**	**7.9**	**15.5**
EPS (Reported, undiluted)	¢	4.1	2.5	2.4	9.6	18.9
EPS (NPATA PF, diluted)	**¢**	**5.5**	**2.4**	**2.2**	**9.3**	**18.2**
Growth	%	*na*	*-57%*	*-6%*	*316%*	*96%*
PER normalised	**x**	**32.5**	**na**	**80.6**	**19.4**	**9.9**
Operating cash flow per share	¢	9.0	4.4	16.2	25.0	36.4
Free cash flow per share	¢	4.2	(16.7)	(10.1)	7.5	19.5
Price to free cash flow per share	**x**	**43.2**	**(10.8)**	**(17.9)**	**23.9**	**9.2**
FCF yield	%	2.3	(9.3)	(5.6)	4.2	10.8
Dividend	**¢**	**0.0**	**0.0**	**2.0**	**4.0**	**10.0**
Payout	%	0.0	0.0	50.0	50.0	50.0
Yield	**%**	**0.0%**	**0.0%**	**1.1%**	**2.2%**	**5.6%**
Franking	%	na	na	100.0	100.0	100.0
Enterprise value	**$m**	**141.1**	**125.4**	**128.3**	**126.9**	**116.4**
EV/EBITDA	x	19.6	20.7	9.7	5.2	3.1
EV/EBIT	x	29.0	62.7	30.6	9.7	4.9
Price to book (NAV)	x	5.7	2.3	1.6	1.5	1.3
Price to NTA	x	3.9	0.5	0.4	0.4	0.4

KEY RATIOS		FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA margin	%	21.8	14.8	16.1	21.3	26.8
EBIT margin	%	14.7	4.9	5.1	11.3	16.8
NPAT margin	%	9.3	3.5	2.3	6.8	10.9
ROE	%	11.9	2.3	2.0	7.9	14.1
ROA	%	6.9	0.4	0.5	2.2	4.1
Net debt / (cash) ex leases	$m	(6.4)	(22.1)	(19.3)	(20.6)	(31.1)
Interest cover (EBIT / Net interest)	x	7.1	2.6	2.8	7.2	13.4
Leverage (Net debt / EBITDA)	x	0.0	0.0	0.0	0.0	0.0
Gearing (ND / (ND+E))	%	0%	0%	0%	0%	0%

DUPONT ANALYSIS		FY19A	FY20A	FY21F	FY22F	FY23F
Net Profit Margin	%	9.3	3.5	2.3	6.8	10.9
Asset Turnover	x	0.7	0.1	0.2	0.3	0.4
Return on Assets	%	6.9	0.4	0.5	2.2	4.1
Financial Leverage	x	1.7	5.0	3.8	3.6	3.4
Return on Equity	**%**	**11.9**	**2.3**	**2.0**	**7.9**	**14.1**

GROWTH PROFILE		FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	%	na	23.6	101.3	40.2	22.8
EBITDA	%	na	(15.7)	118.3	85.8	54.5
EBIT	%	na	(58.9)	109.8	211.8	82.4
NPAT (pe AASB16)	%	na	(53.4)	na	315.7	95.8
EPS (NPATA PF, diluted)	%	na	(57.3)	na	315.7	95.8

PROFIT AND LOSS (P&L)		FY19A	FY20A	FY21F	FY22F	FY23F
Revenue	$m	33.1	40.9	82.3	115.4	141.7
EBITDA	**$m**	**7.2**	**6.1**	**13.2**	**24.6**	**38.0**
Depreciation & amortisation	$m	(2.3)	(4.1)	(9.1)	(11.5)	(14.2)
EBIT	**$m**	**4.9**	**2.0**	**4.2**	**13.1**	**23.9**
Net interest	$m	(0.7)	(0.8)	(1.5)	(1.8)	(1.8)
Associate income	$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	**$m**	**4.2**	**1.2**	**2.7**	**11.3**	**22.1**
Tax expense	$m	(1.1)	0.2	(0.8)	(3.4)	(6.6)
NPAT (pe AASB16)	**$m**	**3.1**	**1.4**	**1.9**	**7.9**	**15.5**
Amortisation add-back	$m	0.0	0.0	0.0	0.0	0.0
NPAT (pe AASB16)	**$m**	**3.1**	**1.4**	**1.9**	**7.9**	**15.5**
Significant items	$m	(0.9)	0.0	0.0	0.0	0.0
Reported NPAT	***$m***	***2.2***	***1.4***	***1.9***	***7.9***	***15.5***

BALANCE SHEET		FY19A	FY20A	FY21F	FY22F	FY23F
Cash	$m	14.4	30.1	27.3	28.6	39.1
Receivables	$m	0.2	2.7	5.3	7.5	9.2
Inventory	$m	0.0	0.0	0.0	0.0	0.0
Other	$m	0.4	3.0	3.0	3.0	3.0
Current	**$m**	**15.0**	**35.7**	**35.6**	**39.1**	**51.2**
Prop, plant & equip	$m	19.2	205.5	243.8	250.8	253.3
Intangibles	$m	6.6	20.5	18.9	16.6	13.7
Other	$m	3.6	57.7	57.7	57.7	57.7
Non current	**$m**	**29.3**	**283.8**	**320.4**	**325.1**	**324.8**
Total assets	**$m**	**44.3**	**319.5**	**355.9**	**364.2**	**376.0**
Accounts Payable	$m	2.5	5.1	10.1	13.3	15.2
Borrowings	$m	7.9	8.0	8.0	8.0	8.0
Other	$m	8.1	243.1	243.1	243.1	243.1
Total liabilities	**$m**	**18.5**	**256.2**	**261.2**	**264.4**	**266.3**
Shareholder's equity	**$m**	**25.8**	**63.3**	**94.7**	**99.8**	**109.7**

CASH FLOW		FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA	$m	7.2	6.1	13.2	24.6	38.0
Change in working capital	$m	0.0	0.1	2.3	1.0	0.2
Net interest	$m	(0.6)	(0.8)	(1.5)	(1.8)	(1.8)
Tax paid	$m	(0.5)	(1.6)	(0.8)	(3.4)	(6.6)
Other	$m	1.2	(0.2)	0.0	0.0	0.0
Operating cash flow	**$m**	**7.3**	**3.6**	**13.3**	**20.5**	**29.8**
Capex	$m	(3.9)	(17.3)	(21.5)	(14.3)	(13.8)
Acquisitions	$m	(7.1)	(17.7)	(24.1)	(2.0)	0.0
Other	$m	(0.2)	(0.0)	0.0	0.0	0.0
Investing cash flow	**$m**	**(11.2)**	**(35.1)**	**(45.6)**	**(16.3)**	**(13.8)**
Equity issuance	$m	23.5	45.0	30.0	0.0	0.0
Increase / (decrease) in borrowings	$m	(3.5)	8.0	0.0	0.0	0.0
Dividends / other	$m	(2.9)	(5.8)	(0.5)	(2.8)	(5.6)
Financing cash flow	**$m**	**17.1**	**47.1**	**29.5**	**(2.8)**	**(5.6)**
Net cash flow	**$m**	**13.9**	**15.7**	**(2.8)**	**1.4**	**10.4**
Free cash flow	$m	3.4	(13.7)	(8.2)	6.2	16.0

Source: Petra Capital

23 July 2021

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