ShawandPartners
an EFG company

Viva Leisure Ltd (VVA)

Rating: Buy | Risk: High | Price Target: $3.60

1H20 Leaves VVA On Track to Deliver a Strong FY20 and FY21

Key Information

Current Price ($ps)	2.41
12m Target Price ($ps)	3.60
Target Price Upside (%)	49.4%
TSR (%)	49.4%
Reporting Currency	AUD
Market Cap ($m)	144.0
Sector	Health Care
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

Fundamentals

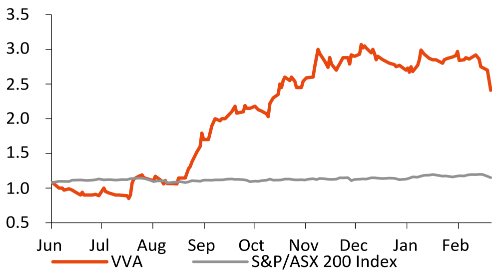
YE 31 Dec (AUD)	FY19A	FY20E	FY21E	FY22E
Sales ($m)	31.1	58.7	98.2	116.5
NPAT ($m)	2.9	6.2	11.5	15.1
EPS (cps)	5.4	10.8	19.3	25.3
EPS Growth (%)	(2.1%)	99.8%	78.0%	31.3%
DPS (cps) (AUD)	0.0	0.0	4.6	10.7
Franking (%)	0%	0%	100%	100%

Ratios

YE 31 Dec	FY19A	FY20E	FY21E	FY22E
P/E (x)	50.7	22.2	12.5	9.5
EV/EBITDA (x)	19.1	9.8	5.8	4.9
Div Yield (%)	0.0%	0.0%	1.9%	4.5%
Payout Ratio (%)	0.0%	0.0%	23.8%	42.4%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(12.2%)	(17.1%)	(13.6%)	n/a
Absolute (%)	(15.4%)	(16.0%)	(12.4%)	n/a
Benchmark (%)	(3.2%)	1.1%	1.2%	12.0%



Price performance indexed to 100 *Source:*

Major Shareholders

Shja Management	36.1%
Mera Vale No1	15.3%
Bennelong	7.6%
Doma Equities	5.7%
OC Funds	4.8%

Event

VVA has reported its 1H20 results in line with expectations, FY20 guidance has not changed and expectations regarding further acquisitions and organic growth remain unchanged. Shaw and Partners forecasts, TP and rating also remain unchanged.

Highlights

- **Strong results in line with expectations** – Revenue +52.7% on pcp to $23.0m, EBITDA +79.8% on pcp to $5.6m, NPAT 121% on pcp to $2.8m (excluding AASB16). The results were supported by a 77% increase in members and 140% increase in locations to 60 facilities. Note statutory results including the new accounting treatment for leases under AASB16 increase EBITDA to $10.3m and reduce NPAT to $1.2m.

- **The key takeaway – Multiple growth drivers are set to continue delivering** – Drivers include:

  i) As at the end of December VVA's monthly run rate had it generating $85m of revenue over a 12 month period,

  ii) utilisation at 71% reflects acquisitions and new openings that operate below VVA historic and targeted utilisation levels, but more importantly represents upside potential as these facilities are brought up to ~85% utilisation,

  iii) EBITDA margin improvement from 20.7% to 24.4% reflects the operating leverage in the business which is expected to continue to be a feature of future results as VVA continues to expand the number of facilities and as recent acquisitions which operate at margins well below VVA's are improved,

  iv) further diversification in VVA's membership base was evident with the ACT now representing 50% of members (from 80%) reflecting the fact that the model that was so successful in the ACT is delivering similar results in new regions such as Albury/Wodonga, and

  v) location numbers continue to expand, up 140% to 60 over the half ending December 31 and now at 75. VVA expects to have 82 locations by 30 June but has additional leases and acquisitions in its development pipeline that bring the total number of potential facilities to 115.

- **Controlling its own destiny** – VVA is now in position to control its own growth over the next few years. With $27m of cash at the end of December (we estimate cash is now at $12m following acquisitions) and the potential to draw further debt VVA is currently in position to acquire sites equating to an estimated $4m of EBITDA.

Recommendation

VVA's 1H20 results support earlier expectations that its current run rate will under pin a strong FY20 and FY21. VVA's monthly sales run rate exiting December 2019 was $7m up from $2.6m at the end of Dec 2018 which provides significant momentum and upside for the second half and for a full 12 month contribution in 2021. VVA has continued to achieve monthly organic growth since December and has guided to a sales run rate growth on pcp of 112% for the June 2020 month. This will have it on an EBITDA run rate of $21m at June 30 2020, growing members at 15% pa and with funding to acquire additional facilities setting the company up for a strong performance in FY21. The strong growth outlined above not only looks to be sustainable, but based on FY21 expectations is not fully factored into VVA's share price when compared with ASX listed practice managers. BUY.

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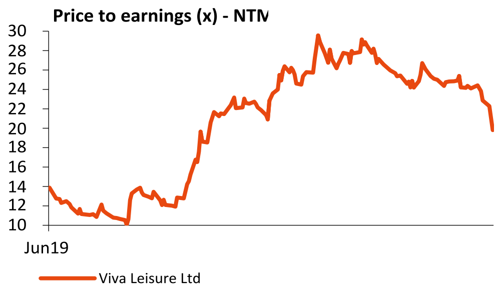
Viva Leisure Ltd
Health Care
Health Care Equipment & Services
FactSet: VVA-AU / Bloomberg: VVA AU

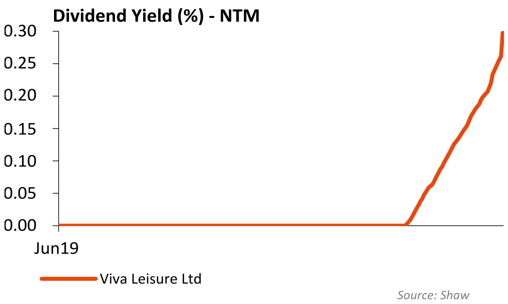
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	2.41
Target Price ($ps)	3.60
52 Week Range ($ps)	-
Shares on Issue (m)	59.8
Market Cap ($m)	144.0
Enterprise Value ($m)	139.5
TSR (%)	49.4%

Valuation NPV	Data
Beta	1.50
Cost of Debt (net) (%)	7.9%
Risk Free Rate (%)	4.3%
Terminal Growth (%)	3.0%
WACC (%)	13.8%

Company Description

Viva Leisure Ltd. operates health clubs in health and leisure industries. It offers customers with membership options and a range of facilities from big box to boutique fitness. The firm's brands include Club Lime, Ladies Only, Psycle Life, Aquatics, Hiit Republic, Swim School, Gymmy PT and Studio by Club Lime. The company was founded by Harry Konstantinou and Angelo Konstantinou on January 12, 2004 and is headquartered in Mitchell, Australia Capital Territory.





Financial Year End: 31 December

Investment Summary (AUD)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS (Reported) (cps)	**5.5**	**5.4**	**9.3**	**16.0**	**21.5**
EPS (Underlying) (cps)	**5.5**	**5.4**	**10.8**	**19.3**	**25.3**
EPS (Underlying) Growth (%)	119.7%	(2.1%)	99.8%	78.0%	31.3%
PE (Underlying) (x)	**n/a**	**50.7**	**22.2**	**12.5**	**9.5**
EV / EBIT (x)	**n/a**	**27.5**	**16.8**	**10.5**	**8.1**
EV / EBITDA (x)	**n/a**	**19.1**	**9.8**	**5.8**	**4.9**
DPS (cps) (AUD)	0.0	0.0	0.0	4.6	10.7
Dividend Yield (%)	n/a	0.0%	0.0%	1.9%	4.5%
Franking (%)	0%	0%	0%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	23.8%	42.4%
Free Cash Flow Yield (%)	n/a	2.1%	(5.6%)	2.3%	4.8%

Profit and Loss (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	24.1	31.1	58.7	98.2	116.5
Sales Growth (%)	*16.3%*	*28.9%*	*88.9%*	*67.3%*	*18.6%*
EBITDA	**5.2**	**7.2**	**14.2**	**25.8**	**31.7**
EBITDA Margin (%)	*21.6%*	*23.3%*	*24.3%*	*26.3%*	*27.2%*
Depreciation & Amortisation	(1.5)	(2.2)	(5.9)	(11.6)	(12.5)
EBIT	**3.7**	**5.0**	**8.3**	**14.2**	**19.1**
EBIT Margin (%)	*15.2%*	*16.2%*	*14.2%*	*14.5%*	*16.4%*
Net Interest	(0.5)	(1.1)	(0.8)	(0.6)	(0.8)
Pretax Profit	3.1	4.0	7.5	13.6	18.4
Tax	(0.2)	(1.1)	(2.3)	(4.1)	(5.5)
Tax Rate (%)	*(7.1%)*	*(28.2%)*	*(30.0%)*	*(30.0%)*	*(30.0%)*
NPAT Underlying	**2.9**	**2.9**	**6.2**	**11.5**	**15.1**
NPAT Reported	**2.9**	**2.9**	**5.3**	**9.5**	**12.8**

Cashflow (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3.7	5.0	8.3	14.2	19.1
Tax Paid	0.0	(0.5)	(2.3)	(4.1)	(5.5)
Net Interest	(0.5)	(0.6)	(1.2)	(1.0)	(1.0)
Depreciation & Amortisation	1.5	2.2	5.9	11.6	12.5
Other	(3.0)	1.2	2.6	1.5	0.7
Operating Cashflow	**1.7**	**7.3**	**13.4**	**22.2**	**25.9**
Capex	0.0	0.0	(21.0)	(19.0)	(19.0)
Acquisitions and Investments	0.0	(7.1)	(17.0)	0.0	0.0
Disposal of Fixed Assets/Investments	0.1	0.2	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	**0.1**	**(7.0)**	**(38.0)**	**(19.0)**	**(19.0)**
Free Cashflow	**(0.2)**	**3.1**	**(7.6)**	**3.2**	**6.9**
Equity Raised / Bought Back	0.0	22.5	19.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	(5.8)
Other	0.6	(5.5)	3.2	(4.0)	(7.0)
Financing Cashflow	**0.6**	**17.1**	**22.2**	**(4.0)**	**(12.8)**
Net Change in Cash	**2.3**	**17.5**	**(2.4)**	**(0.8)**	**(5.9)**

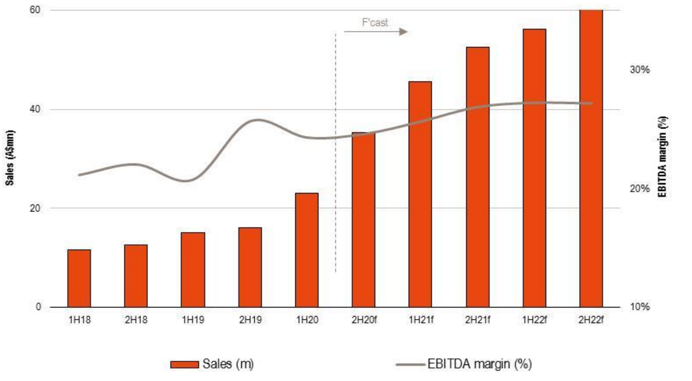
Balance Sheet (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	1.1	14.4	12.0	11.2	5.3
Accounts Receivable	0.1	0.2	0.4	0.6	0.7
Inventory	0.1	0.4	0.4	0.4	0.4
Other Current Assets	0.1	0.0	0.0	0.0	0.0
PPE	9.6	19.2	47.1	46.9	45.5
Goodwill & Intangibles	0.0	6.6	5.7	3.7	1.4
Other Non Current Assets	0.3	n/a	n/a	n/a	n/a
Total Assets	**11.4**	**44.2**	**69.0**	**66.2**	**56.6**
Accounts Payable	2.0	2.5	2.9	4.2	4.8
Short Term Debt	3.3	2.3	2.3	2.3	2.3
Long Term Debt	4.1	5.7	12.5	14.5	14.5
Income Taxes Payable	0.5	1.5	1.5	1.5	1.5
Other	1.6	6.6	5.3	5.3	5.3
Total Liabilities	**11.5**	**18.5**	**24.4**	**27.7**	**28.3**
Total Shareholder Equity	**(0.1)**	**25.8**	**50.0**	**59.6**	**66.6**

Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
ROE (%)	(8,489.8%)	22.2%	16.2%	21.1%	24.0%
Gearing (%)	101.1%	(33.3%)	5.3%	8.5%	14.7%
Net Debt / EBITDA (x)	1.2	(0.9)	0.2	0.2	0.4

Industry conditions are expected to sustain growth

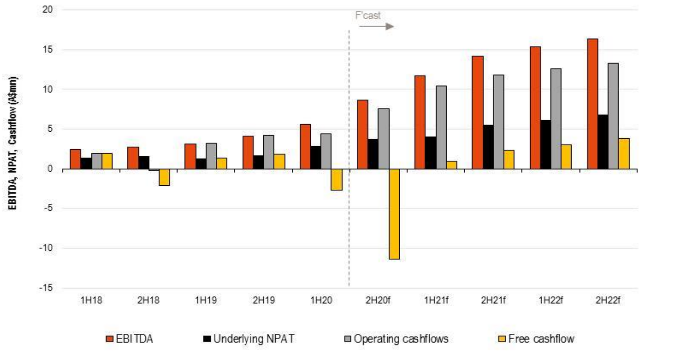
VVA's 1H20 result accelerated its 3 year sales growth trajectory (CAGR of 20%) and reaffirmed its margin improvement of the last few years, each of which look set to improve further over future years as reflected in Figure 1 and 2.

Figure 1: Sales (A$m) and Gross Margin (%)



Source: Shaw and Partners

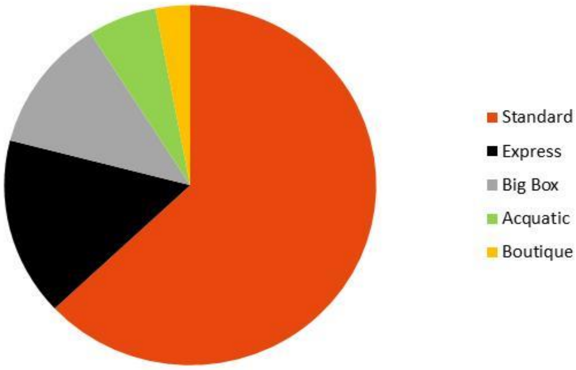
Figure 2: Operating cashflow, NPAT & EBITDA (A$M)



Source: Shaw and Partners

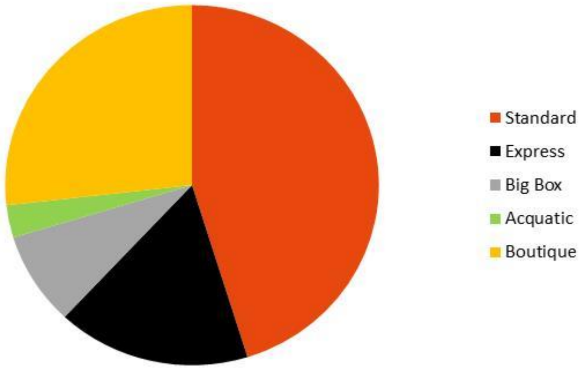
Recent acquisitions and green field developments are expected to see VVA's 'hub and spoke' strategy deliver an increasingly profitable mix of clubs in the future as detailed in Figures 3 and 4.

Figure 3: VVA clubs by type - 2019



Source: Shaw and Partners

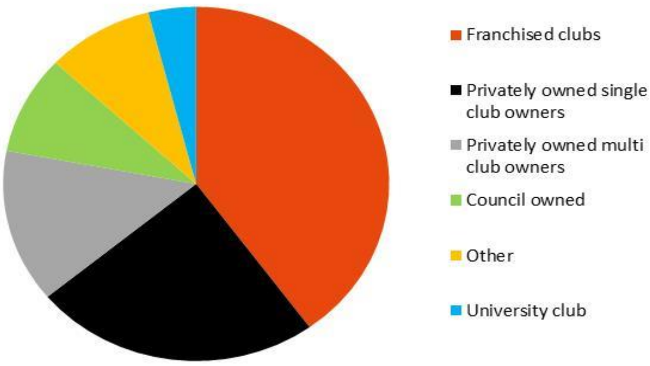
Figure 4: Future – Boutique & express no.s are expected to grow



Source: Shaw and Partners

There are ~5,000 businesses within the Australian fitness industry (in all segments). Most of these are franchises of the large industry participants however, there are ~1000 privately owned single club owners and a similar number of clubs owned by multiclub owners as detailed in Figure 5 most of which are in regional Australia where VVA is rolling out new facilities.

Figure 5: Australian Health Club market



Source: Shaw and Partners

Key risks

▪ VVA's ability to attract and retain members is crucial to its profitability – in VVA's home market the ACT it has achieved 10% penetration compared to an industry average national penetration of 15%. This industry leading penetration suggests VVA can build membership in other regions that it is now expanding into.

▪ VVA may face increased competition from competitors for members and suitable acquisition opportunities.

▪ VVA operates its facilities from leased premises. There is a risk that leases may not be renewed on acceptable terms, however VVA typically has multiple 5 year options in place.

▪ Operational risks confronting roll ups are greater than those confronted by established businesses.

▪ ~40% of VVA's total FY19 revenue was reliant on a single contract (CISAC). We expect it will drop to ~27.3% of total revenue for FY20.

▪ VVA relies on software and hardware to support the operation of its facilities. Any significant interruption could adversely impact its financial performance.

Core drivers and catalyst

▪ Improved utilization as recent acquisitions are brought into line with VVA's historic averages,

▪ Evidence of strong membership growth from the replication of VVA's 'hub and spoke' model in Albury/Wodonga, and

▪ Delivery of a June 2020 monthly run rate up 112% on pcp as previously guided.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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