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Youfoodz Holdings (YFZ)

Prospectus forecasts reaffirmed

Recommendation
Buy (unchanged)
Price
\$1.155
Target (12 months)
\$1.50 (unchanged)

GICS Sector
Retailing

Expected Return

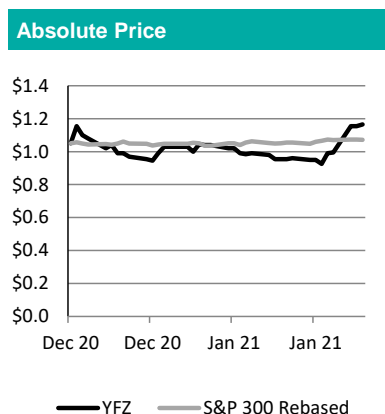
Capital growth	29.9%
Dividend yield	0.0%
Total expected return	29.9%

Company Data & Ratios

Enterprise value	\$124.4m
Market cap	\$155.5m
Issued capital	134.6m
Free float	~27.4%
Avg. daily val. (52wk)	\$53k
12 month price range	\$0.905 - \$1.32

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.03		
Absolute (%)	13.11		
Rel market (%)	10.76		



2Q21 update: No surprises, on track vs Prospectus forecast

YFZ has delivered a positive 2Q21 update, with revenue in line with our expectations and on track vs FY21 Prospectus forecasts. The key highlights of the update include:

- B2C underpins strong revenue growth:** 2Q21 gross revenue of \$50.6m was up +26.8% vs pcp. Net revenue (after terms & discounts) of \$36.7m was up +25.4% vs pcp. Growth was underpinned by B2C (gross revenue +50.6%) partially offset by B2B (gross revenue -2.5%). B2C growth driven by 49.8% increase in active customers, while B2B continued to be impacted by reduced foot traffic due to COVID. The 2Q21 update translates into 1H21 gross revenue of \$100m (+16.5% vs pcp) and net revenue of \$73.6m (+15.6% vs pcp), which are in line vs BPe.
- Growth initiatives progressing to plan:** A range of operational/growth initiatives were achieved during the quarter, including: 1) launch of next day deliver in NSW “resulting in a material uplift in order volumes for the period following launch”; 2) launch of the Youfoodz Subscription Service on Mobile App; 3) progress in the B2B channel including expansion of menu range with an existing supermarket customer & roll-out of meal offering to a new convenience store customer (adding ~700 stores during the period); and 4) an initial order to, and ongoing discussions with, an airline customer around expanding menu range, and the launch of an airline frequent flyer partnership scheduled for 3Q21. Also, the development of the new manufacturing facility is progressing as planned. YFZ has selected a preferred site and is in the process of selecting an external project manager.
- Reaffirms FY21 Prospectus forecasts:** YFZ noted early results in 2H21 indicate the “momentum is continuing”. The company stated it “remains confident of achieving, and reaffirms, its FY21 Prospectus forecasts.”

Earnings changes & Investment View: Retain Buy, PT \$1.50

With the update in line with our expectations & FY21 Prospectus forecasts reaffirmed, there is no change to our forecasts and our price target remains unchanged at \$1.50. Underpinned by favourable industry trends, levers at hand to grow market share (as noted above), and backed by a strong balance sheet (net cash ~\$35m), we believe YFZ is well positioned to achieved continued growth and retain our Buy rating.

Earnings Forecast

Jun Year end	2020a	2021e	2022e	2023e
Net Sales (A\$m)	127.3	149.9	168.6	189.5
EBITDA (A\$m)	(2.7)	2.9	3.7	8.8
NPAT (reported) (A\$m)	(6.5)	(0.8)	(2.3)	0.2
NPAT (underlying) (A\$m)	(9.5)	(4.3)	(2.3)	0.2
EPS underlying (cps)	(7.1)	(3.2)	(1.7)	0.1
EPS underlying growth (%)	n/a	n/a	n/a	n/a
PER (on underlying EPS) (x)	n/a	n/a	n/a	n/a
EV/Sales (x)	1.0	0.8	0.7	0.7
EV/EBITDA (x)	n/a	42.4	33.2	14.1
Dividend (eps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-

Youfoodz Holdings

Company Description

Youfoodz Holdings (YFZ) specialises in the production and distribution of high quality and affordable fresh, ready-made meals and other convenience food products for residential (home delivery), retail and corporate customers. YFZ's products are marketed & distributed through an omni-channel sales model to a database of >850,000 home delivery customers via a direct-to-consumer offering (B2C) & a business-to-business offering to supermarkets, independent grocers, petrol and convenience, corporate and gov't customers (B2B). YFZ operates three production facilities in Brisbane and has developed a scalable, proprietary manufacturing technology system to optimise production and supply-chain management.

Investment Strategy

We rate YFZ Buy with a PT of \$1.50. YFZ's growth strategy encompasses: 1) investment in subscription model to support customer retention and improve B2C unit economics; 2) refinement of loyalty programs to also drive customer retention/repeat purchases; 3) new menu additions; 4) increasing next day delivery capabilities to new regions; 5) continue to build new B2B customer relationships including expansion into new B2B verticals; and 6) potential strategic acquisitions. Furthermore, over the medium/long-term, there is scope for YFZ to expand into new geographies such as New Zealand (likely initial focus) & the USA.

Valuation

Our blended 12-month price target is \$1.50. Our DCF is \$1.44 (WACC of 11.1%) while our EV/sales is \$1.56. We take a simple average to derive our price target.

Risk to Investment Thesis

Key risks to our investment thesis include (but are not limited to):

- **COVID-19:** The substantial impact of COVID-19 on the global & domestic economies is creating volatility & uncertainty in global share markets. Forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.
- **Competition:** The ready-made meal market is competitive and there is a risk YFZ may lose market share to its competitors and/or place pressure on sales and margins.
- **Customer contracts:** YFZ distributes its products to retailers, some of which operate without written agreements. Risk customers may cease purchasing product from YFZ.
- **Supply chain:** Risk that an operational issue occurs along the supply chain that could impact YFZ's ability to produce and deliver its meals at the desired level of quality, efficiency, and with the ingredients needed for each ready-made meal.
- **Quality of ingredients supplied:** Conditions not favourable for food production and farming may impact a supplier's ability to supply ingredients at required quality or at all.
- **Proposed new purpose-built facility:** Risk regulatory approval/required applications could be refused or delayed. Construction works may also be subject to cost overruns.
- **Brand reputation & value:** YFZ's branding & reputation could be adversely impacted by a number of factors. This in turn could have an adverse impact on customer loyalty and retention, the rate of new customer acquisition and relationships with suppliers.
- **Food cost volatility:** The cost of YFZ's inputs and operations may increase as a result of external factors. Also, prices of produce fluctuates depending on general conditions, season and demand, and there is a risk that certain produce will become scarce.

Table 1 - Financial summary

Jun Year end	2018	2019	2020	2021e	2022e	2023e
Profit & Loss (A\$m)						
Gross sales revenue	153.2	211.4	171.5	199.8	224.8	252.6
... Change		38.0%	-18.9%	16.5%	12.5%	12.4%
Net sales revenue	123.3	156.6	127.3	149.9	168.6	189.5
... Change		27.0%	-18.7%	17.8%	12.4%	12.4%
EBITDA	(11.7)	(27.2)	(2.7)	2.9	3.7	8.8
... Change						
Deprec. & amort.	(1.6)	(2.0)	(3.9)	(4.8)	(6.0)	(8.6)
EBIT	(13.3)	(29.2)	(6.6)	(1.9)	(2.3)	0.2
Net Interest	(0.4)	(3.6)	(3.0)	(2.5)	0.0	(0.0)
Pre-tax profit	(13.7)	(32.8)	(9.6)	(4.4)	(2.3)	0.2
Tax expense	(1.0)	(1.4)	0.1	0.1	-	-
... tax rate	-7%	-4%	1%	3%	0%	0%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	(14.7)	(34.2)	(9.5)	(4.3)	(2.3)	0.2
... Change	n/a	132.7%	-72.1%	-55.4%	-47.0%	-107.3%
Abs. & extras.	(2.4)	(0.4)	3.0	3.5	-	-
Reported Profit	(17.1)	(34.6)	(6.5)	(0.8)	(2.3)	0.2
Cashflow (A\$m)						
EBITDA	-	(27.2)	(2.7)	2.9	3.7	8.8
Working capital changes	-	-	14.3	(5.2)	(3.0)	(0.2)
Net Interest Expense	-	-	-	(2.5)	0.0	(0.0)
Tax	(7.0)	(14.1)	(3.0)	-	-	-
Other operating items	15.1	44.6	(29.7)	0.1	0.0	0.0
Operating Cash Flow	8.1	3.3	(21.1)	(4.7)	0.7	8.6
Capex	(4.2)	(3.1)	(2.4)	(3.0)	(3.0)	(3.3)
Free Cash Flow	3.9	0.2	(23.5)	(7.7)	(2.2)	5.2
Acquisitions/Growth Capex	-	-	-	-	(15.0)	-
Disposals	-	-	-	-	-	-
Payment of leases	-	-	(2.4)	(2.4)	(2.5)	(2.6)
Dividends paid	-	-	-	-	-	-
Other investing items	-	-	-	3.5	-	-
Equity	0.8	0.8	24.6	-	-	-
Core debt increase/(reduction)	(0.2)	2.5	0.3	6.6	19.7	(2.7)
Balance Sheet (A\$m)						
Cash	-	-	40.2	29.1	9.2	11.8
Receivables	-	-	6.2	9.8	15.2	17.5
Inventories & WIP	-	-	4.5	8.1	9.1	10.7
Other current assets	-	-	1.0	1.0	1.0	1.0
Current Assets	-	-	51.9	48.0	34.5	41.0
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets (PP&E)	-	-	10.0	9.9	23.6	20.1
Right-of-use Assets	-	-	-	-	-	-
Intangibles	-	-	4.1	4.1	4.1	4.1
Other non-curr assets	-	-	-	-	-	-
Non Current Assets	-	-	14.1	14.0	27.7	24.2
Total Assets	-	-	66.0	62.0	62.2	65.2
Short term debt	-	-	3.2	3.2	3.2	3.2
Creditors	-	-	25.0	27.0	30.4	34.1
Provisions	-	-	1.8	1.8	1.8	1.8
Other curr liabilities	-	-	3.5	3.5	3.5	3.6
Current Liabilities	-	-	33.4	35.5	38.8	42.6
LT debt (incl. leases)	-	-	4.4	-	-	-
Creditors	-	-	-	-	-	-
Provisions	-	-	0.1	0.2	0.2	0.2
Other non curr liabilities	-	-	-	-	-	-
Non Current Liabilities	-	-	4.5	0.2	0.2	0.2
Total Liabilities	-	-	37.9	35.6	39.0	42.8
Net Assets	-	-	28.1	26.4	23.2	22.5
Share Capital	-	-	89.0	89.0	89.0	89.0
Reserves	-	-	-	-	-	-
Retained Earnings	-	-	(60.9)	(62.6)	(65.8)	(66.5)
Shareholders Equity	-	-	28.1	26.4	23.2	22.5
Outside Equity Interests	-	-	-	-	-	-
Total Equity	-	-	28.1	26.4	23.2	22.5
Core Net debt/(cash) \$m	-	-	(37.0)	(30.4)	(10.7)	(13.3)
Net debt/(cash) [incl. leases] \$m	-	-	(31.1)	(24.3)	(4.5)	(7.0)

Price	\$1.155
Recommendation	Buy
Diluted issued capital (m)	134.6
Market cap (\$m)	155.5
Target Price (A\$m)	\$ 1.50

Jun Year end	2018	2019	2020	2021e	2022e	2023e
Valuation Ratios						
Underlying EPS (eps)	-	-	(7.1)	(3.2)	(1.7)	0.1
... % change	-	-	n/a	n/a	n/a	n/a
PE (on underlying EPS) (x)	-	-	n/a	n/a	n/a	n/a
EV/EBITDA (x)	-	-	n/a	42.4	33.2	14.1
EV/EBIT (x)	-	-	(18.7)	(66.2)	(54.4)	652.1
EV/Sales (x)	1.0	0.8	1.0	0.8	0.7	0.7
NTA (\$ps)	-	-	0.18	0.17	0.14	0.14
P/NTA (x)	-	-	6.48	6.98	8.13	8.46
Book Value (\$ps)	-	-	0.21	0.20	0.17	0.17
Price/Book (x)	-	-	5.53	5.90	6.70	6.92
DPS (eps)	-	-	-	-	-	-
... % pay-out	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-	-	-

Jun Year end	2018	2019	2020	2021e	2022e	2023e
Performance Ratios						
Gross revenue growth (%)	-	38.0%	-18.9%	16.5%	12.5%	12.4%
Net revenue growth (%)	-	27.0%	-18.7%	17.8%	12.4%	12.4%
EBITDA growth (%)	-	n/a	n/a	n/a	27.6%	135.0%
EBITDA/net sales margin (%)	-9.5%	-17.4%	-2.1%	2.0%	2.2%	4.6%
EBIT/net sales margin (%)	-10.8%	-18.6%	-5.2%	-1.3%	-1.4%	0.1%
Gross cash conversion (%)	-	-	670.4%	-74.6%	19.2%	97.6%
Free cash-flow yield (%)	-	-	-15.1%	-4.9%	-1.4%	3.4%
ROE (%)	-	-	-34.0%	-15.5%	-9.1%	0.7%
ROIC (%)	-	-	-48.5%	22.0%	-36.8%	1.2%
Capex/Depn (x)	-	-	1.1	1.0	0.7	0.5
Net interest cover (x)	-	-	n/a	n/a	85.5	7.2
Core Net Debt/EBITDA (x)	-	-	n/a	n/a	n/a	n/a
Net debt/equity (%)	-	-	-110.7%	-92.3%	-19.2%	-31.0%
Net debt/net debt + equity (%)	-	-	n/a	n/a	n/a	n/a

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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Disclosure: Bell Potter Securities acted as joint lead manager and underwriter to YFZ's IPO in December 2020 and received fees for that service.

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