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City Chic Collective (CCX)

Outperforming

Recommendation
Buy (unchanged)
Price
\$5.77
Target (12 months)
\$6.60 (previously \$4.90)

GICS Sector
Retailing

Expected Return

Capital growth	14.4%
Dividend yield	1.7%
Total expected return	16.1%

Company Data & Ratios

Enterprise value	\$1,338m
Market cap	\$1,397m
Issued capital	242.0m
Free float	~62%
Avg. daily val. (52wk)	\$3.9m
12 month price range	\$2.49 - \$5.88

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.35	4.52	3.10
Absolute (%)	8.97	28.98	88.06
Rel market (%)	8.22	23.68	67.36

Absolute Price



Strong FY21 result - ahead BPe, plus resilient trading update

CCX has release unaudited FY21 headline numbers plus a trading update, as follows:

- FY21 sales of \$258m up 32.9% on pcp. Comparable sales up 31.6% vs pcp.
- FY21 underlying EBITDA (pre-AASB16) is expected to be \$42.0-\$42.5m, circa 9% ahead BPe \$38.8m, and representing 58-60% growth on FY20.
- Trading in 1H22-to-date has “exceeded budget”, with strong US and UK trading outweighing impact of temporary store closures due to lockdowns in Australia.
- Net cash balance of A\$71.5m as at 27 June 2021 (pre funding of Navabi, below).

Acquisition of Navabi provides foothold in European market

CCX also announced it has acquired JPC United GmbH (“Navabi”), as follows:

- Established in 2009, Navabi is an online marketplace selling third-party women’s plus-size brands. Navabi has also developed its own brands exclusively sold on the marketplace, which have grown to become the majority of sales.
- Multiple Navabi websites across Europe incl. Germany (primary), France and UK. Materially strengthens CCX’s foothold in the €40b European plus-size market.
- Navabi’s websites had 5.8m visits in 2020 generating €10.4m (A\$16.6m) in sales. Pre-pandemic, website traffic exceeded 10m visits. Whilst Navabi has traded profitably in 2021, traffic and revenue have not recovered to pre-pandemic levels. This suggests material sales upside opportunity as European markets reopen.
- Payment of €6.0m (A\$9.6m) in cash, implying EV/sales ~0.6x. Inventory position is depleted and will be rebuilt to more commercial levels over the next 6 months.

Earnings changes & Investment View: Retain Buy, PT \$6.60

We have updated our forecasts for the FY21 result and acquisition, and rolled forward our model. Net effect is FY21e-FY24e EPS upgrades of 9.4%/2.5%/8.4%/11.9% & our PT increases to \$6.60 (previously \$4.90). We retain our Buy rating based on CCX’s: significant growth prospects in key offshore markets (with the company’s acquisitive and organic growth strategy proving highly successful); flexible business model; ample funding headroom; favourable industry tailwinds; and strong management team.

Earnings Forecast

Jun Year end	2021e	2022e	2023e	2024e
Sales (A\$m)	258.0	326.0	377.6	434.1
EBITDA (A\$m)	50.7	62.5	75.2	89.8
NPAT (reported) (A\$m)	25.1	35.7	45.2	55.4
NPAT (underlying) (A\$m)	25.7	35.7	45.2	55.4
EPS underlying (cps)	10.8	14.7	18.7	22.9
EPS underlying growth (%)	76.1%	36.0%	26.7%	22.6%
PER (on underlying EPS) (x)	53.2	39.1	30.9	25.2
EV/EBITDA (x)	26.4	21.4	17.8	14.9
Dividend (€ps)	3.0	9.9	12.6	15.3
Yield (%)	0.5%	1.7%	2.2%	2.7%
Franking (%)	100%	100%	100%	100%
ROE (%)	19.1%	19.1%	22.4%	25.1%

City Chic Collective

Company Description

City Chic Collective Limited (CCX) is a global multichannel retailer, with >70% of sales online, specialising in plus-size women's apparel, accessories and footwear. It is a collective of customer-led brands including City Chic, Avenue, Evans, Navabi, CCX, Hips & Curves and Fox & Royal. Following CCX's recent acquisitions of Evans and Navabi, the company now has four high traffic online platforms, each with a strong customer following, across four key markets. These include City Chic in ANZ, Avenue in the USA, Evans in the UK and Navabi in Europe/UK.

Investment Strategy

We rate CCX Buy with a price target of \$6.60. CCX's growth strategy seeks to capitalise on its leading ANZ market position while also continuing to grow its international presence. In ANZ, online is CCX's most profitable channel & offers the most upside (lifestyle extensions, broader product range through online exclusives). Offshore, the key market opportunity is the USA (priority is to grow online via City Chic US, Avenue, Evans, Navabi and Hips & Curves websites).

Valuation

Our blended 12-month price target is \$6.60. Our DCF is \$6.75 (WACC of 9.5%) while our SOTP (EV/EBITDA basis) is \$6.45. We take a simple average to derive our price target.

Risk to Investment Thesis

Key Investment risks include (but are not limited to):

- **COVID-19:** The substantial impact of COVID-19 on the global & 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.
- **Offshore expansion:** CCX's growth strategy is reliant on a number of partnerships. Unforeseen changes/termination in arrangements may impact our earnings forecasts.
- **Brand Deterioration:** Due to poor product quality/design, or poor customer service.
- **Store program in ANZ,** (albeit CCX's primary focus is online): Changes to the store program, or failure to renew/obtain leases on acceptable terms, may impact earnings.
- **Competition:** New competitors or aggressive behaviour from existing competitors may impact CCX's market position and profits.
- **Cyclical risk:** CCX retails mainly apparel & accessories which are discretionary items.
- **Changing Consumer Trends/Preferences:** Failure to move with changing consumer trends/preferences could impact sales.
- **Personnel risk:** The loss of key senior personnel may affect CCX's ability to execute on business strategies, achieve targets, as well as move with current trends.
- **FX movements:** CCX operates locally and offshore, hence generates revenue & incurs costs in foreign currencies. Most goods sourced for domestic business are priced in \$A.
- **Product & Supply Chain:** CCX's products are manufactured in China and hence are exposed to risks around sourcing, production, warehousing & supply chain disruptions.

Table 1 - Financial summary

Jun Year end	2019	2020	2021a/e	2022e	2023e	2024e
Profit & Loss (A\$m)						
Sales revenue	148.4	194.5	258.0	326.0	377.6	434.1
... Change	12.6%	31.0%	32.7%	26.3%	15.8%	15.0%
EBITDA	24.9	38.8	50.7	62.5	75.2	89.8
... Change						
Deprec. & amort.	(3.9)	(17.5)	(13.5)	(13.1)	(13.1)	(14.4)
EBIT	20.9	21.3	37.2	49.4	62.1	75.4
Net Interest	0.4	(1.3)	(0.5)	0.9	1.6	2.7
Pre-tax profit	21.3	20.0	36.7	50.3	63.7	78.1
Tax expense	(6.2)	(7.5)	(11.0)	(14.6)	(18.5)	(22.6)
... tax rate	29%	38%	30%	29%	29%	29%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	15.1	12.5	25.7	35.7	45.2	55.4
... Change	n/a	-17.6%	106.5%	38.7%	26.7%	22.6%
Abs. & extras.	(0.9)	(3.3)	(0.6)	-	-	-
Reported Profit	14.3	9.2	25.1	35.7	45.2	55.4
Assumed AASB16 adjustment to Underlying EBITDA		(12.3)	(8.4)	(9.2)	(9.4)	(9.6)
Underlying EBITDA (Pre-AASB16)		26.5	42.3	53.3	65.8	80.2
Cashflow (A\$m)						
EBITDA	24.9	38.8	50.7	62.5	75.2	89.8
Working capital changes	(22.8)	(7.2)	(7.3)	(9.5)	(3.5)	(4.5)
Net Interest Expense	0.4	(0.0)	(0.2)	0.9	1.6	2.7
Tax	(1.9)	(4.4)	(11.9)	(12.2)	(16.2)	(19.9)
Other operating items	21.0	(1.9)	1.1	4.2	2.3	2.9
Operating Cash Flow	21.5	25.2	32.4	45.9	59.4	71.0
Capex	(8.1)	(5.5)	(4.7)	(6.5)	(7.6)	(8.7)
Free Cash Flow	13.4	19.7	27.7	39.4	51.8	62.4
Acquisitions	(2.5)	(25.7)	(42.1)	(9.6)	-	-
Disposals	31.1	-	-	-	-	-
Payment of leases	-	(11.6)	(11.4)	(11.6)	(11.9)	(12.2)
Dividends paid	(9.6)	(2.9)	-	(20.1)	(27.0)	(33.0)
Other investing items	(25.4)	-	-	-	-	-
Equity	-	-	108.6	-	-	-
Debt increase/(reduction)	(12.9)	17.5	(16.4)	1.9	(12.9)	(17.2)
Balance Sheet (A\$m)						
Cash	23.2	21.4	67.6	65.7	78.6	95.8
Receivables	4.6	5.1	10.3	13.7	15.9	18.6
Inventories & WIP	19.4	38.1	47.5	68.4	79.2	92.9
Other current assets	1.3	2.3	6.5	6.5	6.5	6.5
Current Assets	48.5	66.8	131.9	154.3	180.2	213.8
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets (PP&E)	9.3	8.9	9.5	11.5	14.7	17.9
Right-of-use Assets	-	22.3	18.6	19.1	19.5	20.0
Intangibles	15.2	39.2	75.9	85.5	85.5	85.5
Other non-curr assets	12.1	8.7	8.7	8.7	8.7	8.7
Non Current Assets	36.5	79.1	112.7	124.7	128.4	132.2
Total Assets	85.0	145.8	244.6	279.1	308.6	345.9
Short term debt	-	-	-	-	-	-
Creditors	25.5	37.5	44.9	59.7	69.1	81.1
Provisions	10.6	8.9	10.5	14.3	16.4	19.0
Other curr liabilities	0.8	9.3	9.0	9.2	9.4	9.7
Current Liabilities	36.9	55.7	64.4	83.3	95.0	109.7
LT debt (incl. leases)	-	35.5	-	-	-	-
Creditors	-	-	-	-	-	-
Provisions	1.9	0.8	1.1	1.5	1.7	2.0
Other non curr liabilities	1.9	-	1.0	1.0	1.0	1.0
Non Current Liabilities	3.8	36.3	2.1	2.5	2.7	3.0
Total Liabilities	40.7	92.0	66.5	85.8	97.7	112.7
Net Assets	44.3	53.9	178.1	193.3	211.0	233.2
Share Capital	49.1	49.1	158.5	158.5	158.5	158.5
Reserves	(0.2)	2.2	(2.7)	(2.7)	(2.7)	(2.7)
Retained Earnings	(4.6)	2.6	22.2	37.5	55.2	77.4
Shareholders Equity	44.3	53.9	178.0	193.3	211.0	233.2
Outside Equity Interests	-	-	-	-	-	-
Total Equity	44.3	53.9	178.0	193.3	211.0	233.2
Core Net debt/(cash) \$m	(23.2)	(3.9)	(81.8)	(79.7)	(92.4)	(109.3)
Net debt/(cash) [incl. leases] \$m	(23.2)	23.3	(58.8)	(56.7)	(69.4)	(86.3)

Price	\$5.77
Recommendation	Buy
Diluted issued capital (m)	242.0
Market cap (\$m)	1,396.6
Target Price (A\$m)	\$ 6.60

Jun Year end	2019	2020	2021a/e	2022e	2023e	2024e
Valuation Ratios						
Underlying EPS (eps)	7.6	6.2	10.8	14.7	18.7	22.9
... % change	n/a	-19.4%	76.1%	36.0%	26.7%	22.6%
PE (on underlying EPS) (x)	75.6	93.7	53.2	39.1	30.9	25.2
EV/EBITDA (x)	53.77	34.48	26.39	21.41	17.79	14.90
EV/EBIT (x)	63.90	62.81	35.96	27.10	21.53	17.75
EV/Sales (x)	9.01	6.88	5.18	4.10	3.54	3.08
NTA (\$ps)	0.15	0.07	0.42	0.45	0.52	0.61
P/NTA (x)	39.26	80.73	13.67	12.95	11.13	9.46
Book Value (\$ps)	0.22	0.26	0.74	0.80	0.87	0.96
Price/Book (x)	25.82	22.02	7.84	7.22	6.62	5.99

DPS (eps)	6.5	-	3.0	9.9	12.6	15.3
... % pay-out	82.7%	0.0%	28.4%	67.4%	67.2%	66.9%
Yield (%)	1.1%	0.0%	0.5%	1.7%	2.2%	2.7%
Franking (%)	100%	100%	100%	100%	100%	100%

Performance Ratios						
Revenue growth (%)	12.6%	31.0%	32.7%	26.3%	15.8%	15.0%
EBITDA growth (%)	25.1%	56.0%	30.7%	23.2%	20.4%	19.4%
EBITDA/sales margin (%)	16.8%	19.9%	19.6%	19.2%	19.9%	20.7%
EBIT/sales margin (%)	14.1%	11.0%	14.4%	15.1%	16.5%	17.4%
Gross cash conversion (%)	92.7%	76.6%	87.9%	91.5%	98.3%	98.2%
Free cash-flow yield (%)	1.2%	1.7%	2.0%	2.8%	3.7%	4.5%
ROE (%)	35.0%	24.7%	19.1%	19.1%	22.4%	25.1%
ROIC (%)	80.2%	29.9%	33.3%	33.7%	39.3%	45.9%
Capex/Depn (x)	2.1	1.0	0.9	1.4	1.8	1.6
Net interest cover (x)	n/a	15.9	74.4	n/a	n/a	n/a
Core Net Debt/EBITDA (pre-AASB16) (x)	n/a	-	n/a	n/a	n/a	n/a
Net debt/equity (%)	-52.4%	43.3%	-33.0%	-29.3%	-32.9%	-37.0%
Net debt/net debt + equity (%)	-110.3%	30.2%	-49.3%	-41.5%	-49.0%	-58.7%

Half yearly (A\$m)	1H19	2H19	1H20	2H20	1H21	2H21e
Sales revenue	75.4	73.0	104.8	89.7	119.0	139.0
EBITDA	15.8	9.1	27.0	11.8	27.2	23.5
Deprec. & amort.	(1.0)	(3.0)	(2.3)	(3.5)	(3.1)	(2.1)
EBIT	14.8	6.1	18.4	2.9	20.0	17.2
Interest expense	0.2	0.2	(0.6)	(0.8)	(0.5)	-
Pre-tax profit	15.0	6.3	17.8	2.1	19.5	17.2
Tax expense	(4.0)	(2.2)	(5.5)	(2.0)	(5.8)	(5.2)
... tax rate	27%	34%	31%	92%	30%	30%
Associates	-	-	-	-	-	-
Minorities	-	-	-	-	-	-
Underlying Net Profit	11.0	4.1	12.3	0.2	13.7	12.0
Abs. & extras.	(1.1)	0.2	(1.8)	(1.5)	(0.6)	-
Reported Profit	9.9	4.4	10.5	(1.3)	13.1	12.0

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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