

Analyst

Sam Haddad 612 8224 2819

Authorisation

Jonathan Snape 613 9235 1601

JB Hi-Fi Limited (JBH)

Underlying demand remains strong, for now

Recommendation

Hold (unchanged)

Price

\$49.51

Target (12 months)

\$46.50 (previously \$45.50)

GICS Sector

Retailing

Expected Return

Capital growth	-6.1%
Dividend yield	3.9%
Total expected return	-2.2%

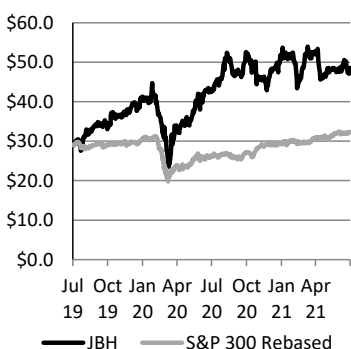
Company Data & Ratios

Enterprise value	\$6,350m
Market cap	\$5,750m
Issued capital	116.1m
Free float	70%
Avg. daily val. (52wk)	\$31.8m
12 month price range	\$42.30 - \$55.25

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	47.61	52.23	42.40
Absolute (%)	2.04	-6.99	14.58
Rel market (%)	1.37	-12.29	-10.40

Absolute Price



Strong 4Q21 sales update, FY21 headline result ahead BPe

JBH has provided a sales update for 4Q21, and released preliminary unaudited FY21 headline results. The key highlights are as follows:

4Q21 sales update:

- JB Hi-Fi Australia like-for-like (LFL) sales of -7.8% (cycling +31.4%);
- The Good Guys LFL sales of -1.5% (cycling +30.2%);
- JB Hi-Fi NZD (a small contributor to JBH) LFL sales of +46.9% (cycling -24.1%).

Preliminary unaudited FY21 headline results:

- FY21 sales of \$8.9b, +4.6% ahead vs BPe \$8.5b and up +12.6% vs pcp;
- Within this online sales lifted +78.1% to \$1.1b, representing 11.9% of total sales;
- FY21 EBIT of \$743.2m, +15.6% ahead vs BPe \$642.9m and up +53.8% vs pcp;
- Strong improvement in gross margins, combined with disciplined cost control and strong sales growth, drove significant operating leverage.

July comments: "...expecting some disruption and variability to sales as a result of the various state based COVID restrictions". A July update will be provided on 16 August.

Earnings changes / Investment view: Retain Hold, PT \$46.50

The 4Q21 update reveals continued heightened demand for consumer electronics and home appliance/entertainment products. Lockdowns will obviously cause disruption in Jul/Aug, although we note Dec-Quarter trading is the key swing factor for JBH's 1H22. From a bottom-up perspective, the update further demonstrates: 1) JB Hi-Fi remains a key destination retailer for technology/consumer electronics; & 2) a materially stronger Good Guys business that resonates strongly with consumers for home appliances.

We have updated our FY21 with pre-audit actuals and rolled forward our model. Net effect is our FY21 (now shown as 'actual')/FY22e EPS increase by 15%/3.7%. Our PT increases to \$46.50 (previously \$45.50). Based on valuation on a normalised base and increased near-term uncertainties (as a result of COVID), we retain our Hold rating.

Earnings Forecast

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	8,916.1	8,299.1	8,326.5	8,526.1
EBITDA (A\$m)	966.9	741.1	743.5	746.7
NPAT (reported) (A\$m)	506.1	345.4	343.4	344.3
NPAT (underlying) (A\$m)	506.1	345.4	343.4	344.3
EPS underlying (cps)	435.8	297.4	295.6	296.5
EPS underlying growth (%)	55.1%	-31.7%	-0.6%	0.3%
EPS growth (ex. AASB16 impact) (%)	55.1%	-31.7%	-0.6%	0.3%
PER (on underlying EPS) (x)	11.4	16.6	16.7	16.7
EV/EBITDA (x)	6.6	8.6	8.5	8.5
Dividend (¢ps)	280.0	194.7	193.6	194.1
Yield (%)	5.7%	3.9%	3.9%	3.9%
Franking (%)	100%	100%	100%	100%
ROE (%)	41.4%	26.6%	24.6%	22.8%

SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
ABN 25 006 390 772
AFSL 243480

DISCLAIMER:

THIS REPORT MUST BE READ WITH THE DISCLAIMER ON PAGE 4 THAT FORMS PART OF IT.

JB Hi-Fi Limited

Company Description

JB Hi-Fi Limited (JBH) is a specialty discount retailer of consumer electronic and home entertainment products. On 13 Sept 2016, JBH announced the acquisition of The Good Guys which significantly increased JBH's presence in the home appliances market. Key product categories across the combined group includes home appliances, flat panels/TVs, computers/tablets, audio, games, music, and DVDs. JBH also has a commercial business that provides products (as a reseller) & services to the corporate and government sectors. JBH's footprint spans Australia and New Zealand, although primarily weighted to Australia.

Investment Strategy

We rate JBH **Hold** with a PT of \$46.50. JBH has a broad product range at discounted prices, positioned to appeal to all customers. Scale, high stock turnover and low cost of doing business enables JBH to consistently offer 'everyday low prices'. Realising synergy opportunities with the Good Guys, productivity/efficiency opportunities in merchandising and the supply chain, and growth into Commercial are key growth strategies.

Valuation

Our blended 12 month valuation is \$46.50. Our DCF is \$48.09 (WACC of 9.9%), while our EV/EBITDA is \$44.92 (FY23e basis). We take a simple average to derive our price target.

Risks to Investment Thesis

Key downside risks to our valuation 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.
- **Slowdown in consumer spending/housing cycle** – The majority of JBH's product portfolio are highly discretionary items. High unemployment, rising interest rates and a subdued housing market have a negative impact to consumer discretionary spending. The Good Guys increases JBH's vulnerability to a downturn in housing turnover.
- **Increased competition** – Increased competitive intensity via price/product range may place pressure on sales/margins, impacting earnings.
- **Price deflation** – Excessive discounting placing pressure on industry margins. Global price harmonisation pressures via online, which is amplified with rising/high \$A.
- **Product innovation** – A slowdown in the pace of innovation can impact sales and earnings growth. Also, failure to successfully adapt to the changing product landscape, (i.e. shifting to growth categories), will likely impact market share and sales prospects.
- **Brand equity deterioration** – due to poor product quality or customer service. Brand deterioration leads to loss of market share in highly competitive markets.
- **Movements in \$A/\$US** – JBH sources primarily from Australian-based subsidiaries of multinationals. Therefore JBH does not directly take currency risk. Nonetheless a rising or high \$A environment increases domestic deflationary pressures.
- **Impairment risk** – due to difficult market conditions or the deterioration in brand equity.
- **Store rollout changes** – This may impact our revenue and earnings forecasts.

Table 1 - Financial summary

Jun Year end	2019	2020	2021a/e	2022e	2023e	2024e
Profit & Loss (A\$m)						
Sales revenue	7,095.3	7,918.9	8,916.1	8,299.1	8,326.5	8,526.1
... Change	3.5%	11.6%	12.6%	-6.9%	0.3%	2.4%
EBITDA	429.1	732.3	966.9	741.1	743.5	746.7
... Change	4.2%	70.6%	32.0%	-23.4%	0.3%	0.4%
Deprec. & amort.	(56.2)	(54.5)	(55.8)	(58.1)	(58.2)	(57.0)
EBIT	372.9	503.0	743.2	508.7	504.7	503.1
Net Interest	(13.6)	(35.3)	(22.6)	(15.3)	(14.2)	(11.2)
Pre-tax profit	359.3	467.7	720.6	493.5	490.5	491.9
Tax expense	(109.5)	(141.4)	(214.5)	(148.0)	(147.2)	(147.6)
... tax rate	30%	30%	30%	30%	30%	30%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	249.8	326.3	506.1	345.4	343.4	344.3
... Change	7.1%	30.6%	55.1%	-31.7%	-0.6%	0.3%
Abs. & extras.	-	(24.0)	-	-	-	-
Reported Profit	249.8	302.3	506.1	345.4	343.4	344.3
Assumed AASB16 adjustment to Unc	-	(191.3)	(191.3)	(180.2)	(186.7)	(192.9)
Underlying EBITDA (Pre-AASB16)	429.1	541.0	775.6	560.9	556.8	553.8
Cashflow (A\$m)						
EBITDA	429.1	732.3	966.9	741.1	743.5	746.7
Working capital changes	(35.3)	360.3	(371.5)	(1.7)	(5.1)	(8.3)
Net Interest Expense	(13.1)	(10.4)	(11.3)	(15.3)	(14.2)	(11.2)
Tax	(116.4)	(118.2)	(217.8)	(168.5)	(146.6)	(145.9)
Other operating items	37.3	17.4	20.7	0.5	1.5	2.4
Operating Cash Flow	301.6	901.3	387.0	556.2	579.1	583.6
Capex	(58.3)	(43.1)	(53.8)	(53.9)	(54.1)	(55.4)
Free Cash Flow	243.3	858.2	333.1	502.2	525.0	528.2
Acquisitions	-	-	-	-	-	-
Disposals	0.2	0.1	-	-	-	-
Payment of leases	-	(161.8)	(169.6)	(176.0)	(182.4)	(188.5)
Dividends paid	(157.4)	(172.3)	(310.2)	(249.4)	(223.9)	(222.9)
Other items	-	-	-	-	-	-
Equity	(6.9)	(31.6)	(10.1)	-	-	-
Core debt increase/(reduction)	(31.1)	(440.1)	377.9	(76.8)	(118.6)	(116.8)
Balance Sheet (A\$m)						
Cash	119.2	251.5	100.0	100.0	100.0	100.0
Receivables	236.0	220.3	258.4	259.3	262.0	266.5
Inventories & WIP	886.7	739.3	1,093.1	1,096.9	1,108.6	1,127.6
Other current assets	34.6	34.7	35.4	35.4	35.4	35.4
Current Assets	1,276.5	1,245.8	1,486.9	1,491.6	1,506.0	1,529.6
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets	191.5	172.3	166.6	162.5	158.3	156.7
Right-of-use Assets	-	642.2	597.5	620.2	641.7	661.9
Intangibles	1,037.3	1,031.4	1,031.4	1,031.4	1,031.4	1,031.4
Other non-curr assets	43.5	60.6	69.6	69.6	69.6	69.6
Non Current Assets	1,272.3	1,906.5	1,865.1	1,883.7	1,901.1	1,919.6
Total Assets	2,548.8	3,152.3	3,352.0	3,375.3	3,407.1	3,449.2
Short term debt	-	-	-	-	-	-
Creditors	820.1	1,050.7	1,097.8	1,100.8	1,110.2	1,125.4
Provisions	99.0	131.2	186.9	187.2	188.3	190.0
Other curr liabilities	8.0	164.0	171.3	177.8	184.0	189.8
Current Liabilities	927.1	1,345.9	1,455.9	1,465.8	1,482.4	1,505.2
LT debt (incl. LT leases)	439.1	577.6	528.9	472.0	372.2	273.1
Creditors	90.1	81.6	81.6	81.6	81.6	81.6
Provisions	15.2	41.5	39.7	39.9	40.3	41.0
Other non curr liabilities	33.2	-	-	-	-	-
Non Current Liabilities	577.6	700.7	650.2	593.5	494.1	395.7
Total Liabilities	1,504.7	2,046.6	2,106.1	2,059.3	1,976.6	1,900.9
Net Assets	1,044.1	1,105.7	1,245.8	1,316.0	1,430.5	1,548.3
Share Capital	434.8	403.2	393.1	393.1	393.1	393.1
Reserves	53.7	66.8	74.9	74.9	74.9	74.9
Retained Earnings	555.6	635.7	777.8	848.0	962.5	1,080.3
Shareholders Equity	1,044.1	1,105.7	1,245.8	1,316.0	1,430.5	1,548.3
Outside Equity Interests	-	-	-	-	-	-
Total Equity	1,044.1	1,105.7	1,245.8	1,316.0	1,430.5	1,548.3
Core Net debt/(cash) \$m	319.9	(251.5)	(94.9)	(171.7)	(290.3)	(407.1)
Net debt/(cash) [incl. leases] \$m	319.9	490.1	600.1	549.8	456.2	362.9

Price	\$49.51
Recommendation	Hold
Diluted issued capital (m)	116.1
Market cap (\$m)	5,750.1
Target Price (A\$m)	\$ 46.50

Jun Year end	2019	2020	2021a/e	2022e	2023e	2024e
Valuation Ratios						
Underlying EPS (eps)	215.0	280.9	435.8	297.4	295.6	296.5
... % change	7.1%	30.6%	55.1%	-31.7%	-0.6%	0.3%
PE (on underlying EPS) (x)	23.0	17.6	11.4	16.6	16.7	16.7
EV/EBITDA (x)	-	8.67	6.57	8.57	8.54	8.50
EV/EBIT (x)	-	12.63	8.54	12.48	12.58	12.62
NTA (\$ps)	0.06	0.64	1.85	2.45	3.44	4.45
P/NTA (x)	845.60	77.39	26.81	20.21	14.41	11.12
Book Value (\$ps)	8.99	9.52	10.73	11.33	12.32	13.33
Price/Book (x)	5.51	5.20	4.62	4.37	4.02	3.71
DPS (eps)	142.0	189.0	280.0	194.7	193.6	194.1
... % pay-out	65.3%	66.5%	63.8%	65.5%	65.5%	65.5%
Yield (%)	2.9%	3.8%	5.7%	3.9%	3.9%	3.9%
Franking (%)	100%	100%	100%	100%	100%	100%

Performance Ratios						
Revenue growth (%)	3.5%	11.6%	12.6%	-6.9%	0.3%	2.4%
EBITDA growth (%)	4.2%	70.6%	32.0%	-23.4%	0.3%	0.4%
EBITDA/sales margin (%)	6.0%	9.2%	10.8%	8.9%	8.9%	8.8%
EBIT/sales margin (%)	5.3%	6.4%	8.3%	6.1%	6.1%	5.9%
Gross cash conversion (%)	100.5%	151.6%	63.7%	99.8%	99.5%	99.2%
Free cash-flow yield (%)	4.2%	16.3%	5.8%	8.7%	9.1%	9.2%
ROE (%)	24.6%	30.1%	41.4%	26.6%	24.6%	22.8%
ROIC (%)	19.7%	33.1%	54.8%	32.3%	32.2%	32.2%
Capex/Depn (x)	1.1	0.8	1.0	0.9	0.9	1.0
Net interest cover (x)	27.4	14.2	32.9	33.3	35.5	44.9
Core Net Debt/EBITDA (pre-AASB16) (x)	0.7	n/a	n/a	n/a	n/a	n/a
Net debt/equity (%)	30.6%	44.3%	48.2%	41.8%	31.9%	23.4%
Net debt/net debt + equity (%)	23.5%	30.7%	32.5%	29.5%	24.2%	19.0%

Half yearly (A\$m)	1H19	2H19	1H20	2H20	1H21	2H21
Sales revenue	3,843.7	3,251.6	3,995.2	3,923.7	4,941.2	3,974.9
EBITDA	264.3	164.8	372.1	360.2	571.9	395.0
Deprec. & amort.	(27.7)	(28.5)	(26.2)	(28.3)	(25.9)	(29.9)
EBIT	236.6	136.3	263.0	240.0	462.8	280.4
Interest expense	(6.7)	(6.9)	(17.8)	(17.5)	(12.3)	(10.3)
Pre-tax profit	229.9	129.4	245.2	222.5	450.5	270.1
Tax expense	(69.8)	(39.7)	(74.6)	(66.8)	(132.8)	(81.7)
... tax rate	30%	31%	30%	30%	29%	30%
Associates	-	-	-	-	-	-
Minorities	-	-	-	-	-	-
Underlying Net Profit	160.1	89.7	170.6	155.7	317.7	188.4
Abs. & extras.	-	-	-	(24.0)	-	-
Reported Profit	160.1	89.7	170.6	131.7	317.7	188.4

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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Olivia Hagglund	Associate Analyst	612 8224 2813	ohagglund
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey

Bell Potter Securities Limited
 ABN 25 006 390 772
 Level 29, 101 Collins Street
 Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
 Room 1701, 17/F
 Prosperity Tower, 39 Queens Road
 Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
 Floor 39
 444 Madison Avenue, New York
 NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
 16 Berkeley Street
 London, England
 W1J 8DZ, United Kingdom
Telephone +44 7734 2929

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. **In Hong Kong**, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. **In the United States**, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Research Policies:

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

<https://bellpotter.com.au/research-independence-policy/>

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.