

Analyst

Sam Haddad 612 8224 2819

Authorisation

Jonathan Snape 613 9235 1601

Breville Group (BRG)

Off the boil

Recommendation
Hold (unchanged)
Price
\$30.36
Target (12 months)
\$30.50 (previously \$32.25)

GICS Sector
Retailing

Expected Return

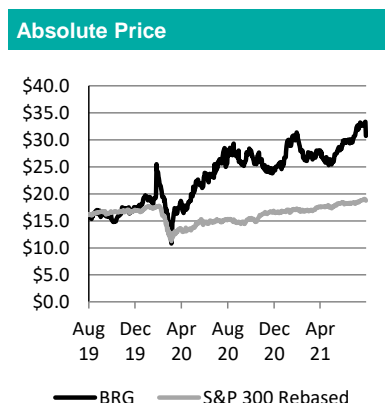
Capital growth	0.4%
Dividend yield	1.1%
Total expected return	1.5%

Company Data & Ratios

Enterprise value	\$4,127m
Market cap	\$4,219m
Issued capital	139.0m
Free float	72.7%
Avg. daily val. (52wk)	\$9.3m
12 month price range	\$23.27 - \$33.61

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	30.02	25.50	27.29
Absolute (%)	2.30	20.43	12.53
Rel market (%)	0.24	13.84	-10.59



SOURCE: IRESS

Robust FY21 result, shipping delays raises near-term risks

BRG announced underlying FY21 EBIT of \$136.4m, up 24.1% YoY (on restated basis) and in line with company guidance. The key result takeaways include:

- **Strong revenue growth throughout FY21:** BRG's key Global Product segment achieved 37.0% constant currency revenue growth, with all regions contributing strongly. This includes the Americas +27.6%, EMEA +58.4% and APAC +37.4%. Increased consumer demand driven by work-from-home, coupled with successful geographic expansion, offset the impact of intermittent supply challenges.
- **International rollout on track:** Despite covid impacts, BRG's international rollout continued to progress to plan. The material lift in EMEA revenue reflects strong growth in the UK throughout the year, traction in Germany/Austria/Benelux/Switzerland, & ramp-up in Spain/France (launched in FY20/1Q21). In 4Q21, BRG also launched in Portugal/Italy, while in the Americas, BRG launched in Mexico.
- **Although more challenges ahead, esp. due to shipping delays:** The key challenges are: 1) inventory constraints due to supply chain delays (end-FY21 inventory ~\$80m below target); 2) supplier chain cost pressures/parts challenges; and 3) the potential transitional demand outlook as consumers begin to spend on services (in those countries opening up). **Levers to counter these challenges include:** 1) taking price increases where appropriate (= gross margin cushion); & 2) costs levers (= flex on COB/sales), noting the FY21 EBIT result absorbed \$49m of increased investment. Furthermore, is the potential reversal of doubtful debt provisioning (~\$8.4m off 1H21 EBIT), although the timing of this is uncertain.
- **Net cash of \$129.9m**, although a significant rebuild in working capital is planned.

Earnings changes / Investment View: Retain Hold, PT \$30.50

Given supply chain risks and a potential transitional demand outlook, we have lowered our growth forecasts. Net effect is our FY22-FY24 EPS decrease by -2.8%/-4.0/-7.5%. Partially offset by model roll forward, our PT decreases to \$30.50 (previously \$32.25). While we continue to have a positive view on BRG's long-term growth prospects, we are mindful of the near-term macro risks and BRG's valuation. Hold rating retained.

Earnings Forecast

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	1,187.7	1,366.8	1,576.7	1,813.1
EBITDA (A\$m)	163.3	194.0	222.1	255.6
NPAT (reported) (A\$m)	91.0	111.1	130.5	155.3
NPAT (underlying) (A\$m)	91.0	111.1	130.5	155.3
EPS underlying (cps)	65.2	79.9	93.9	111.8
EPS underlying growth (%)	15.0%	22.6%	17.5%	19.0%
PER (on underlying EPS) (x)	46.6	38.0	32.3	27.2
EV/EBITDA (x)	25.3	21.3	18.6	16.1
Dividend (eps)	26.5	32.1	37.8	45.2
Yield (%)	0.9%	1.1%	1.2%	1.5%
Franking (%)	100%	60%	60%	60%
ROE (%)	19.2%	20.1%	20.7%	21.5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

FY21 EBIT result in line with guidance

Headline result

Breville Group Ltd (BRG) announced underlying FY21 EBIT of \$136.4m (matching vs BPe \$136.4m), up 20.6% vs pcp (or 24.1% on a restated FY21 basis) and in line with guidance. Underlying NPAT was \$91.0m, up 21.4% vs pcp although slightly below vs BPe \$93.8m.

A final dividend of 13.5cps (ff) was declared, down vs 20.5cps declared in the pcp. BRG previously reduced its dividend target payout ratio from 70% to 40% on a full year basis to allow continued funding of growth opportunities on a 'sustainable cash-neutral' basis.

An overview of the result is below in Figure 1.

Figure 1 – Actual vs expected summary									
	Actuals History (FY20 and beyond is post AASB-16)					Actual FY21	Expected FY21e		Actual vs Expected
	1H20	2H20	FY20	1H21	2H21				
Total Revenue	552.0	400.2	952.2	711.0	476.7	1,187.7	1,177.3		0.9%
% - Growth (pcp)	25.4%	25.2%	25.3%	28.8%	19.1%	24.7%			
EBITDA	85.2	53.6	138.8	112.4	50.9	163.3	172.4		-5.3%
%-Margin	15.4%	13.4%	14.6%	15.8%	10.7%	13.7%	14.6%		-6.1%
% - Growth (pcp)	20.8%	23.3%	21.8%	32.0%	-5.1%	17.7%			
Depn & Amort.	-9.0	-10.2	-19.2	-13.4	-7.4	-20.8	-27.1		-23.4%
EBIT	73.0	40.2	113.1	94.6	41.8	136.4	136.4		0.0%
%-Margin	13.2%	10.0%	11.9%	13.3%	8.8%	11.5%	11.6%		-0.8%
% - Growth (pcp)	17.1%	14.7%	16.2%	29.6%	4.2%	20.6%			
Net Interest	-4.2	-4.0	-8.2	-4.5	-4.5	-9.0	-4.8		
Profit before Tax	68.8	36.2	105.0	90.1	37.3	127.4	131.6		-3.2%
Tax	-19.1	-10.9	-30.0	-25.9	-10.5	-36.4	-37.8		-3.6%
Associates/Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Underlying NPAT	49.7	25.3	75.0	64.2	26.8	91.0	93.8		-3.0%
%-Margin	9.0%	6.3%	7.9%	9.0%	5.6%	7.7%	8.0%		-3.8%
% - Growth (pcp)	14.1%	5.9%	11.2%	29.2%	6.0%	21.4%			
Abnormals post tax	0.0	-8.8	-8.8	0.0	0.0	0.0	0.0		
Reported NPAT	49.7	16.5	66.2	64.2	26.8	91.0	93.8		-3.0%
DPS (¢ps)	20.5	20.5	41.0	13.0	13.5	26.5	26.9		-1.3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Forecast changes

Given supply chain risks and a potential transitional demand outlook, we have lowered our growth forecasts. Net effect is our FY22/FY23/FY24 EPS decrease by -2.8%/-4.0/-7.5%. Partially offset by model roll forward, our 12-month price target decreases to \$30.50 (previously \$32.25). Figure 2 summarises our forecast changes for FY22e-FY24e.

Figure 2 – Earnings revisions summary										
		FY22e			FY23e			FY24e		
		Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	\$m	1389.2	1366.8	-1.6%	1635.2	1576.7	-3.6%	1910.4	1813.1	-5.1%
EBITDA	\$m	201.0	194.0	-3.5%	233.4	222.1	-4.9%	277.6	255.6	-7.9%
EBITDA Margin	%	14.5%	14.2%	-0.3%	14.3%	14.1%	-0.2%	14.5%	14.1%	-0.4%
Underlying NPAT	\$m	114.3	111.1	-2.8%	135.9	130.5	-4.0%	167.9	155.3	-7.5%
Underlying EPS	¢ps	82.3	79.9	-2.8%	97.8	93.9	-4.0%	120.9	111.8	-7.5%
DPS	¢ps	33	32	-2.6%	39	38	-3.5%	49	45	-7.2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Breville Group Limited

Company Description

Breville Group Limited (BRG) is the active manager of a number of consumer electrical appliance brands, with a core focus in the small kitchen appliances segment. BRG owns the Breville, Sage (*UK and certain European markets*), Kambrook and Ronson brands and has a license agreement with Nestle Nespresso SA for the distribution of Breville co-branded Nespresso portioned (*capsule system based*) espresso machines in a number of markets (including Australia, New Zealand and North America).

Investment Strategy

We rate BRG Hold with a price target of \$30.50.

BRG's core strategy is to invest in and build the Breville brand globally by leveraging its products and capabilities across multiple geographies. The two key ingredients to this strategy include product innovation (undertaken by a Sydney based products development team) and investment in infrastructure to support global operations.

Growth in North America, the UK and through BRG's international distributor network is targeted at the mid to high-end segment of the small appliances market. BRG's product range in these regions is more focused and primarily "New Product Development" products that are designed and development by BRG from the ground-up. By contrast, BRG's growth in Australia and New Zealand is across a broader market value segment from the low/mid to up-market end. This is matched by broader product range that is weighted to "Sourced Developed Products" which use an externally sourced (from Asia) product base.

Valuation

Our blended 12-mth price target is \$30.50. Our DCF is \$29.88 (WACC of 9.5%), while our SOTP (EV/EBITDA basis) is \$32.38. We take a 75%/25% split to derive our price target.

Risk 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 together with the Saudi Arabia-Russia oil price war 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.
- **Exposed to cyclical risk:** More material or prolonged weakness in discretionary spending than expected, placing additional pressure on earnings than forecast. This in turn will have downside risk to dividends. The impact to earnings varies by region, with ANZ exhibiting the highest sensitivity given BRG's mature presence in these markets.
- **Deterioration in brand equity risk due to poor product quality:** Brand deterioration will lead to loss of market share and pricing power in highly competitive markets.
- **Brand acceptance risk** in new markets such as the UK, Germany, France and others.
- **Material impairment charge risks on intangibles** due to difficult market conditions or the deterioration in brand equity.
- **House-brands** impinging on market share and placing downward pressure on price.
- **Product & Supply Chain:** BRG's products are manufactured in China and hence are exposed to risks around sourcing, production, warehousing & supply chain disruptions.

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.