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# Propel Funeral Partners (PFP)

## Enters Adelaide and expands in Auckland

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$4.09**  
**Target (12 months)**  
**\$4.65** (previously \$4.25)

**GICS Sector**  
**Commercial Services and Suppliers**

**Expected Return**

Capital growth	<b>13.7%</b>
Dividend yield	<b>2.6%</b>
Total expected return	<b>16.3%</b>

**Company Data & Ratios**

Enterprise value	<b>\$534.4m</b>
Market cap	<b>\$418.4m</b>
Issued capital	<b>102.3m</b>
Free float	<b>~77%</b>
Avg. daily val. (52wk)	<b>\$267k</b>
12 month price range	<b>\$2.71 - \$4.17</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	3.66	3.70	2.73
Absolute (%)	11.75	10.54	49.82
Rel market (%)	13.88	8.79	23.75



### Acquisitions - PFP to enter Adelaide & expand in Auckland

PFP announced it has executed binding sale agreements to acquire: 1) Berry Funeral Directors - fourth generation family business since 1934 located in Norwood, Adelaide; 2) Glenelg Funerals – operating for >25 years located in Glenelg, Adelaide; & 3) State of Grace – operates from two locations in Auckland. Together, the businesses conduct ~1,200 funerals per annum and generated ~\$9.0m in their most recent financial year. Total consideration is up to \$17.6m and includes an upfront payment of \$15.2m in cash + \$0.2m in PFP shares escrowed for up to 3 years + earn-out of up to ~\$2.2m in cash over 3 years. Expected completion of the proposed acquisitions is by 31 Dec'21.

We believe the acquisitions are attractive, as follows:

- **Marks entry into Adelaide, a new fragmented metropolitan market for PFP:** The acquisition of Berry Funeral Directors (amongst the market leaders in metro Adelaide) and Glenelg Funerals, mark PFP's entry into Adelaide while providing a strong platform to pursue further growth opportunities. Adelaide metro is a highly fragmented market, and therefore we see potential for further consolidation.
- **Expands PFP's footprint in Auckland:** The acquisition of State of Grace (west Auckland) further expands PFP's presence in Auckland, nicely complementing Dilis Groups (north Auckland) and Davis Funerals (throughout Auckland).
- **Timely ahead of normalisation of death volumes:** Market volumes have been tracking below long-term trends. This will normalise at some point, with potential to 'overshoot'. These acquisitions strengthen PFP's market position ahead of this.

### Earnings changes & Investment view: Retain Buy, PT \$4.65

We assume the businesses being acquired operate at an average EBITDA margin of ~25%, implying an EV/EBITDA purchase multiple of ~7.8x. Including the acquisitions based on this assumption results in FY22/FY23/FY24 EPS upgrades of +4.5%/+7.5%/+7.7% and our 12-month price target increases to \$4.65 (previously \$4.25). Based on further acquisition prospects (noting PFP's does not yet have a presence in Sydney metro, Melbourne metro, Wellington or Christchurch), an expected normalisation in volumes and opex leverage benefits this will provide, we retain our Buy rating.

**Earnings Forecast**

June Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	120.4	135.6	146.3	153.0
Operating EBITDA (A\$m)	36.3	35.7	39.2	41.2
Operating NPAT (A\$m)	15.3	13.5	15.7	16.3
EPS operating (cps)	15.4	13.2	15.4	15.9
EPS operating growth (%)	7.2%	-14.1%	16.3%	3.4%
NPAT (reported) (A\$m)	14.4	(8.3)	15.0	15.6
PER (on operating EPS) (x)	26.6	30.9	26.6	25.7
PER (on reported EPS) (x)	28.2	(50.5)	27.8	26.9
EV/operating EBITDA (x)	14.7	15.0	13.6	13.0
Dividend (cps)	11.8	10.5	12.3	12.7
Yield (%)	2.9%	2.6%	3.0%	3.1%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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# Propel Funeral Partners Limited

## Company description

Established in FY12, Propel Funeral Partners Ltd (PFP) has since emerged as the second largest provider of funeral, cemetery, crematoria, and related services in ANZ. PFP has a strong presence in regional areas and an emerging metropolitan presence. PFP operates under a multi-brand strategy with the majority of its funeral homes dating back over many decades. PFP was founded by Propel Investments Pty Ltd, the former external manager for PFP. However, effective July 2021, PFP internalised all senior management functions, with all key staff of the former external manager becoming employees of the company.

## Investment Strategy

We rate PFP Buy with a PT of \$4.65. PFP intends to continue to build on its strong track record of making and integrating profitable acquisitions of private businesses, properties, infrastructure and related assets which operate within the death care industry in Australia and New Zealand. PFP expects to continue to invest in its funeral homes to facilitate growth, including selectively identifying potential sites in new locations and expanding (and/or re-furbishing) existing locations. PFP's portfolio also includes land and buildings adjacent to existing funeral homes that can potentially be refurbished or expanded.

## Valuation

Our 12 month valuation is \$4.65 based on DCF (WACC 9.0%; terminal growth rate of 4%).

## 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 and 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.
- **Death volumes:** Death volumes is the most significant driver of the level of activity in the Death Care industry. A sustained decline in volumes can have a negative impact.
- **Acquisitions may not be successful:** There can be no assurance PFP will be able to identify suitable acquisitions at acceptable prices or integrate acquisitions successfully.
- **Failure to execute acquisition opportunities:** Risk PFP is unable to identify/execute suitable opportunities, and a failure to do so could adversely impact PFP's share price.
- **Reliance on key personnel:** The unexpected loss of key management personnel, or the inability of PFP to attract personnel, may adversely affect its financial performance.
- **Competition:** Actions by existing competitors, the entry of new competitors, or failure by PFP to continue to meet changing market conditions and customer needs.
- **Brand and reputation damage:** Factors that adversely affect PFP's reputation may impact PFP's competitiveness, growth and profitability.
- **Pre-paid funds under management:** Pre-paid funeral contracts exposes PFP to potential escalation in costs in the period between when the contract is signed and when the funeral event is performed. If costs escalate at a higher rate versus the return on investment, this will expose PFP to losses on pre-paid contracts & erode margins.
- **Regulation:** Changes in gov't legislation, regulation and policy may impact profitability.



**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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