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City Chic Collective (CCX)

USA underpins strong start to FY22

Recommendation
Buy (unchanged)
Price
\$6.44
Target (12 months)
\$7.40 (previously \$7.05)

GICS Sector
Retailing

Expected Return

Capital growth	14.9%
Dividend yield	0.6%
Total expected return	15.5%

Company Data & Ratios

Enterprise value	\$1,515m
Market cap	\$1,559m
Issued capital	242.0m
Free float	~62%
Avg. daily val. (52wk)	\$4.5m
12 month price range	\$2.67 - \$6.855

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	6.46	5.25	2.82
Absolute (%)	-1.39	21.33	125.89
Rel market (%)	-2.29	23.95	110.39



USA/ANZ performing strong, UK facing ST logistics issues

At its AGM today, CCX provided commentary on trading for the FYTD, as follows:

- **Strong sales growth, underpinned by the USA:** CCX stated it has “achieved strong total revenue growth and comparable sales growth so far in FY22.” The USA, which is now CCX’s largest market based on active customers and website traffic visits, continued to achieve strong growth – Avenue.com continues to trade above pre-acquisition levels while City Chic US online has recovered to strong growth levels. In ANZ, stores in NSW/VIC have traded well since reopening while online continues to be strong and has not slowed following store re-openings. In the UK, following a strong start, Evans has moderated into autumn/winter due to logistics issues. We note, the UK and Europe is still a relatively small percentage of CCX’s global business at this stage (EMEA accounted for ~6% of FY21 sales).
- **Well stocked in key USA / ANZ markets ahead of peak trading period:** Global shipping continues to be a challenge, although CCX has mitigated risks on costs and timing. On a cost level, CCX’s increased volumes have resulted in greater buying power and lower input costs; while on a timing level, CCX has added an additional two month’s lead time into shipping and production. With this, CCX is well set for the peak trading period ahead in ANZ and the USA. In the UK, labour shortages and logistics issues have impeded inventory build, although this is a transient situation with CCX working with its logistics partner to resolve the issue.
- **FY22 earnings to be skewed to 2H22, as we expected:** Reflects: 1) ANZ 1H22 lockdowns; 2) development profile of Evans/Navabi; 3) ramp-up of marketplace partners; & 4) the ongoing shift to USA/UK which are seasonally stronger in 2H.

Earnings changes & Investment view: Retain Buy, PT \$7.40

We expect the strength in the USA will offset short-term logistics issues in the UK, and hence make no material EPS changes in FY22-FY24. Stronger long-term assumptions in the USA and time-creep increases our price target to \$7.40 (previously \$7.05). The combination of CCX’s significant global growth prospects, flexible business model, ample funding headroom, favourable industry tailwinds and strong management team, is attractive. We retain our Buy rating on the stock.

Earnings Forecast

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	258.5	328.0	392.3	461.3
EBITDA (A\$m)	50.2	61.7	75.5	93.2
NPAT (reported) (A\$m)	21.6	35.2	46.2	58.9
NPAT (underlying) (A\$m)	24.1	35.2	46.2	58.9
EPS underlying (cps)	10.1	14.5	19.1	24.3
EPS underlying growth (%)	64.5%	43.5%	31.3%	27.5%
PER (on underlying EPS) (x)	63.6	44.3	33.8	26.5
EV/EBITDA (x)	30.2	24.6	20.1	16.3
Dividend (¢ps)	-	3.9	14.3	18.2
Yield (%)	0.0%	0.6%	2.2%	2.8%
Franking (%)	100%	100%	100%	100%
ROE (%)	17.7%	17.2%	19.3%	22.2%

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 \$7.40. 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 \$7.40. Our DCF is \$7.64 (WACC of 9.5%) while our SOTP (EV/EBITDA basis) is \$7.15. 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.

City Chic Collective

as at 17 November 2021

Recommendation

Buy

Price

\$6.44

Target (12 months)

\$7.40

Table 1 - Financial summary

Jun Year end	2019	2020	2021	2022e	2023e	2024e
Profit & Loss (A\$m)						
Sales revenue	148.4	194.5	258.5	328.0	392.3	461.3
... Change	12.6%	31.0%	32.9%	26.9%	19.6%	17.6%
EBITDA	24.9	38.8	50.2	61.7	75.5	93.2
... Change						
Deprec. & amort.	(3.9)	(17.5)	(14.4)	(12.8)	(12.6)	(14.1)
EBIT	20.9	21.3	35.8	48.9	62.9	79.2
Net Interest	0.4	(1.3)	(1.1)	0.7	2.1	3.8
Pre-tax profit	21.3	20.0	34.7	49.5	65.0	82.9
Tax expense	(6.2)	(7.5)	(10.7)	(14.4)	(18.9)	(24.0)
... tax rate	29%	38%	31%	29%	29%	29%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	15.1	12.5	24.1	35.2	46.2	58.9
... Change	n/a	-17.6%	93.0%	46.2%	31.3%	27.5%
Abs. & extras.	(0.9)	(3.3)	(2.5)	-	-	-
Reported Profit	14.3	9.2	21.6	35.2	46.2	58.9
Assumed AASB16 adjustment to Underlying EBITDA		(12.3)	(7.8)	(7.9)	(8.1)	(8.4)
Underlying EBITDA (Pre-AASB16)		26.5	42.4	53.7	67.4	84.9
Cashflow (A\$m)						
EBITDA	24.9	38.8	50.2	61.7	75.5	93.2
Working capital changes	(22.8)	(7.2)	(25.1)	(5.5)	(5.4)	(6.2)
Net Interest Expense	0.4	(0.0)	(0.4)	0.7	2.1	3.8
Tax	(1.9)	(4.4)	(9.2)	(10.7)	(16.6)	(21.9)
Other operating items	21.0	(1.9)	(0.3)	1.5	1.5	1.7
Operating Cash Flow	21.5	25.2	15.2	47.6	57.1	70.6
Capex	(8.1)	(5.5)	(6.6)	(6.6)	(7.8)	(9.2)
Free Cash Flow	13.4	19.7	8.6	41.1	49.3	61.4
Acquisitions	(2.5)	(25.7)	(40.2)	(9.6)	-	-
Disposals	31.1	-	-	-	-	-
Payment of leases	-	(11.6)	(7.8)	(4.5)	(4.6)	(4.7)
Dividends paid	(9.6)	(2.9)	-	-	(25.8)	(40.1)
Other investing items	(25.4)	-	-	-	-	-
Equity	-	-	108.6	-	-	-
Debt increase/(reduction)	(12.9)	17.5	(17.5)	(27.0)	(18.9)	(16.5)
Balance Sheet (A\$m)						
Cash	23.2	21.4	71.5	79.7	98.6	115.2
Receivables	4.6	5.1	5.6	8.6	9.9	11.4
Inventories & WIP	19.4	38.1	67.0	77.5	89.0	102.3
Other current assets	1.3	2.3	6.9	6.9	6.9	6.9
Current Assets	48.5	66.8	150.9	172.7	204.4	235.7
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets (PP&E)	9.3	8.9	10.2	11.8	15.1	18.6
Right-of-use Assets	-	22.3	22.4	23.0	23.6	24.2
Intangibles	15.2	39.2	75.6	85.2	85.2	85.2
Other non-curr assets	12.1	8.7	7.8	7.8	7.8	7.8
Non Current Assets	36.5	79.1	116.0	127.9	131.7	135.8
Total Assets	85.0	145.8	267.0	300.5	336.1	371.5
Short term debt	-	-	-	-	-	-
Creditors	25.5	37.5	41.9	49.9	57.4	65.9
Provisions	10.6	8.9	9.9	11.3	12.7	14.3
Other curr liabilities	0.8	9.3	12.4	12.6	12.8	13.1
Current Liabilities	36.9	55.7	64.1	73.8	82.9	93.3
LT debt (incl. leases)	-	35.5	18.8	-	-	-
Creditors	-	-	-	-	-	-
Provisions	1.9	0.8	0.5	0.5	0.6	0.7
Other non curr liabilities	1.9	-	0.7	0.7	0.7	0.7
Non Current Liabilities	3.8	36.3	19.9	1.2	1.3	1.4
Total Liabilities	40.7	92.0	84.1	75.0	84.2	94.7
Net Assets	44.3	53.9	182.9	225.5	251.9	276.8
Share Capital	49.1	49.1	158.4	158.4	158.4	158.4
Reserves	(0.2)	2.2	0.4	0.4	0.4	0.4
Retained Earnings	(4.6)	2.6	24.1	66.7	93.2	118.0
Shareholders Equity	44.3	53.9	182.9	225.5	251.9	276.8
Outside Equity Interests	-	-	-	-	-	-
Total Equity	44.3	53.9	182.9	225.5	251.9	276.8
Core Net debt/(cash) \$m	(23.2)	(3.9)	(71.5)	(98.2)	(116.9)	(133.2)
Net debt/(cash) [incl. leases] \$m	(23.2)	23.3	(43.4)	(70.2)	(88.9)	(105.2)

Price	\$6.44
Recommendation	Buy
Diluted issued capital (m)	242.0
Market cap (\$m)	1,558.8
Target Price (A\$m)	\$ 7.40

Jun Year end	2019	2020	2021	2022e	2023e	2024e
Valuation Ratios						
Underlying EPS (eps)	7.6	6.2	10.1	14.5	19.1	24.3
... % change	n/a	-19.4%	64.5%	43.5%	31.3%	27.5%
PE (on underlying EPS) (x)	84.4	104.6	63.6	44.3	33.8	26.5
EV/EBITDA (x)	60.91	39.06	30.19	24.57	20.07	16.26
EV/EBIT (x)	72.38	71.14	42.30	31.01	24.10	19.14
EV/Sales (x)	10.21	7.79	5.86	4.62	3.86	3.28
NTA (\$ps)	0.15	0.07	0.44	0.58	0.69	0.79
P/NTA (x)	43.82	90.10	14.53	11.11	9.35	8.14
Book Value (\$ps)	0.22	0.26	0.76	0.93	1.04	1.14
Price/Book (x)	28.82	24.57	8.52	6.91	6.19	5.63
DPS (eps)	6.5	-	-	3.9	14.3	18.2
... % pay-out	82.7%	0.0%	0.0%	27.0%	75.0%	75.0%
Yield (%)	1.0%	0.0%	0.0%	0.6%	2.2%	2.8%
Franking (%)	100%	100%	100%	100%	100%	100%

Performance Ratios						
Revenue growth (%)	12.6%	31.0%	32.9%	26.9%	19.6%	17.6%
EBITDA growth (%)	25.1%	56.0%	29.4%	22.9%	22.4%	23.4%
EBITDA/sales margin (%)	16.8%	19.9%	19.4%	18.8%	19.3%	20.2%
EBIT/sales margin (%)	14.1%	11.0%	13.9%	14.9%	16.0%	17.2%
Gross cash conversion (%)	92.7%	76.6%	49.4%	93.5%	94.9%	95.2%
Free cash-flow yield (%)	1.1%	1.5%	0.6%	2.6%	3.2%	3.9%
ROE (%)	35.0%	24.7%	17.7%	17.2%	19.3%	22.2%
ROIC (%)	80.2%	29.9%	30.1%	30.9%	37.0%	44.3%
Capex/Depn (x)	2.1	1.0	1.0	1.3	1.7	1.6
Net interest cover (x)	n/a	15.9	32.6	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%	-23.7%	-31.1%	-35.3%	-38.0%
Net debt/net debt + equity (%)	-110.3%	30.2%	-31.1%	-45.2%	-54.5%	-61.3%

Half yearly (A\$m)	2H19	1H20	2H20	1H21	2H21	1H22e
Sales revenue	73.0	104.8	89.7	117.1	141.4	155.8
EBITDA	9.1	27.0	11.8	27.2	23.0	29.2
Deprec. & amort.	(3.0)	(2.3)	(3.5)	(3.1)	(3.3)	(2.5)
EBIT	6.1	18.4	2.9	20.0	15.8	22.8
Interest expense	0.2	(0.6)	(0.8)	(0.5)	(0.6)	(0.0)
Pre-tax profit	6.3	17.8	2.1	19.5	15.2	22.8
Tax expense	(2.2)	(5.5)	(2.0)	(5.8)	(4.9)	(6.6)
... tax rate	34%	31%	92%	30%	32%	29%
Associates	-	-	-	-	-	-
Minorities	-	-	-	-	-	-
Underlying Net Profit	4.1	12.3	0.2	13.7	10.3	16.2
Abs. & extras.	0.2	(1.8)	(1.5)	(0.6)	(1.9)	-
Reported Profit	4.4	10.5	(1.3)	13.1	8.4	16.2

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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