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# Breville Group (BRG)

Strong across all markets

**Recommendation**  
**Hold** (unchanged)  
**Price**  
**\$29.09**  
**Target (12 months)**  
**\$30.50** (previously \$30.15)

**GICS Sector**  
**Retailing**

**Expected Return**

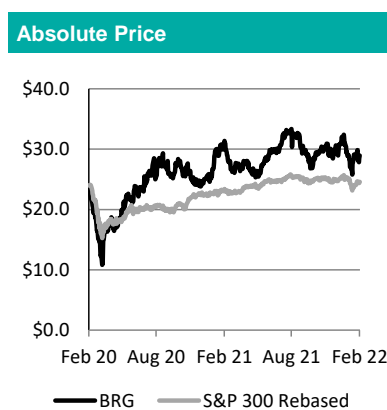
Capital growth	<b>4.8%</b>
Dividend yield	<b>1.1%</b>
Total expected return	<b>5.9%</b>

**Company Data & Ratios**

Enterprise value	<b>\$4,058m</b>
Market cap	<b>\$4,054m</b>
Issued capital	<b>139.4m</b>
Free float	<b>72.7%</b>
Avg. daily val. (52wk)	<b>\$10.2m</b>
12 month price range	<b>\$24.55 - \$33.61</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	29.26	29.85	29.96
Absolute (%)	-1.03	-2.98	-3.34
Rel market (%)	1.85	-1.17	-9.55



## Strong revenue growth, FY22 guidance in line vs consensus

BRG announced underlying 1H22 EBIT of \$112.5m, up 18.9% YoY and 5.0% ahead of BPe \$107.2m. 1H22 NPAT was \$77.7m, up 21.1% YoY. Key result takeaways include:

- **Strong revenue growth continued, ahead BPe:** BRG's 1H22 group revenue of \$878.7m was 9.7% ahead BPe \$801.1m. The Global Product segment achieved +23.8% constant currency revenue growth, with all regions contributing strongly. This includes the Americas +17.1%, EMEA +39.4% and APAC +22.0%.
- **Margins well managed vs disruptive backdrop/cost pressures:** Gross margin was only marginally softer (down -0.9%) with price rises, restrained promotional spend, & mix largely offsetting ongoing inflationary pressures in freight & product costs. 1H22 EBIT margin of 12.8% was broadly in line with pcp of 12.9%.
- **Improved inventory position, although more work to go:** Inventory % R12M sales improved to 22% (pcp: 14%), although 51% of inventory remains as goods-in-transit (mostly on ships at LA port) as opposed to being in warehouse. Supply chain permitting, BRG plans to build inventory in 2H22 (and overshoot equilibrium levels) ahead of peak season to get in front of any future supply chain problems. BRG's end-FY22 inventory target is ~\$350m (we assume \$340m) vs end-1H22 of \$293. At end-FY22 we are forecasting net cash of ~\$50m (vs 1H22 \$31.7m), with the increase in inventory and payables, offset by the normalisation of receivables.
- **Outlook comments:** Consistent with prior years, BRG intends to invest in R&D, marketing and technology in 2H22 to support growth in FY23 and beyond. BRG also expects to enter new geographies and launch new products in 2H22. **FY22 guidance:** FY22 EBIT expected to be consistent with consensus of ~\$156m.

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

We have strengthened our sales forecasts, although offset by slightly lower margins. Net effect is no material changes to our EPS estimates, although time-creep increases our PT to \$30.50 (previously \$30.15). BRG remains well positioned to drive sustained strong sales growth (pent-up NPD pipeline, new geographies and M&A), although further ramp-up of investment (R&D / marketing) will mean limited realisation of scale benefits over the short-to-medium term. Based on valuation, we retain our Hold rating.

**Earnings Forecast**

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	1,187.7	1,423.2	1,615.0	1,846.6
EBITDA (A\$m)	163.3	186.5	214.3	247.5
NPAT (reported) (A\$m)	91.0	106.9	123.9	147.8
NPAT (underlying) (A\$m)	91.0	106.9	123.9	147.8
EPS underlying (cps)	65.2	76.7	88.9	106.1
EPS underlying growth (%)	15.0%	17.6%	15.9%	19.3%
PER (on underlying EPS) (x)	44.6	37.9	32.7	27.4
EV/EBITDA (x)	24.9	21.8	18.9	16.4
Dividend (€ps)	26.5	30.1	35.8	42.9
Yield (%)	0.9%	1.0%	1.2%	1.5%
Franking (%)	100%	100%	100%	100%
ROE (%)	19.2%	19.3%	19.7%	20.6%

# Strong double-digit revenue growth

## Headline result

Breville Group Ltd (BRG) announced underlying 1H22 EBIT (post-AASB16) of \$112.5m, up 12.8% vs pcp and 5.0% ahead vs BPe \$107.2m. Underlying NPAT was \$77.7m, up 21.1% vs pcp and 6.0% ahead vs BPe \$73.3m. Outperformance vs BPe was driven by a stronger than expected top-line result, with 1H22 total revenue of \$878.7m coming in 9.7% ahead of our forecast. 1H22 EBIT margin of 12.8% was slightly below vs BPe 13.4%.

An interim dividend of 15.0cps (ff) was declared, up vs the 13.0cps declared in the pcp.

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 1H22	Expected 1H22e	Actual vs Expected
	1H20	2H20	FY20	1H21	2H21	FY21			
<b>Total Revenue</b>	552.0	400.2	<b>952.2</b>	711.0	476.7	<b>1187.7</b>	<b>878.7</b>	<b>801.1</b>	<b>9.7%</b>
% - Growth (pcp)	25.4%	25.2%	25.3%	28.8%	19.1%	24.7%	23.6%		
<b>EBITDA</b>	85.2	53.6	<b>138.8</b>	112.4	50.9	<b>163.3</b>	<b>125.5</b>	<b>123.0</b>	<b>2.1%</b>
%-Margin	15.4%	13.4%	14.6%	15.8%	10.7%	13.7%	14.3%	15.4%	-1.1%
% - Growth (pcp)	20.8%	23.3%	21.8%	32.0%	-5.1%	17.7%	11.6%		
Depn & Amort.	-9.0	-10.2	-19.2	-13.4	-7.4	-20.8	-10.0	-14.1	
<b>EBIT</b>	73.0	40.2	<b>113.1</b>	94.6	41.8	<b>136.4</b>	<b>112.5</b>	<b>107.2</b>	<b>5.0%</b>
%-Margin	13.2%	10.0%	11.9%	13.3%	8.8%	11.5%	12.8%	13.4%	-0.6%
% - Growth (pcp)	17.1%	14.7%	16.2%	29.6%	4.2%	20.6%	18.9%		
Net Interest	-4.2	-4.0	-8.2	-4.5	-4.5	-9.0	-3.5	-4.5	
<b>Profit before Tax</b>	68.8	36.2	<b>105.0</b>	90.1	37.3	<b>127.4</b>	<b>109.0</b>	<b>102.7</b>	<b>6.2%</b>
Tax	-19.1	-10.9	-30.0	-25.9	-10.5	-36.4	-31.3	-29.4	
Associates/Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Underlying NPAT</b>	49.7	25.3	<b>75.0</b>	64.2	26.8	<b>91.0</b>	<b>77.7</b>	<b>73.3</b>	<b>6.0%</b>
%-Margin	9.0%	6.3%	7.9%	9.0%	5.6%	7.7%	8.8%	9.2%	-0.3%
% - Growth (pcp)	14.1%	5.9%	11.2%	29.2%	6.0%	21.4%	21.1%		
Abnormals post tax	0.0	-8.8	-8.8	0.0	0.0	0.0	0.0	0.0	
Reported NPAT	49.7	16.5	66.2	64.2	26.8	91.0	77.7	73.3	6.0%
DPS (cps)	20.5	20.5	41.0	13.0	13.5	26.5	15.0	15.8	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Forecast changes

We have strengthened our sales forecasts, although offset by slightly lower margins. The net effect is no material changes (<3%) to our FY22-FY24 EPS estimates, although time-creep increases our 12-month price target slightly to \$30.50 (previously \$30.15).

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	1359.1	1423.2	4.7%	1566.3	1615.0	3.1%	1799.6	1846.6	2.6%
EBITDA	\$m	188.5	186.5	-1.1%	216.6	214.3	-1.1%	252.1	247.5	-1.9%
EBITDA Margin	%	13.9%	13.1%	-0.8%	13.8%	13.3%	-0.6%	14.0%	13.4%	-0.6%
Underlying NPAT	\$m	106.4	106.9	0.4%	126.6	123.8	-2.2%	152.3	147.8	-2.9%
Underlying EPS	cps	76.4	76.7	0.4%	90.9	88.9	-2.2%	109.3	106.1	-2.9%
DPS	cps	30	30	0.1%	36	36	-1.0%	44	43	-2.4%

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 \$30.39 (WACC of 9.5%), while our SOTP (EV/EBITDA basis) is \$30.85. 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.*

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