

Analyst

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Premier Investments (PMV)

Outperforming

Recommendation
Buy (unchanged)

Price
\$27.10
Target (12 months)
\$32.00 (previously \$31.25)

GICS Sector
Retailing
Expected Return

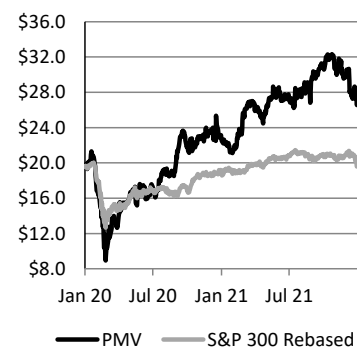
| | |
|-----------------------|--------------|
| Capital growth | 18.1% |
| Dividend yield | 3.1% |
| Total expected return | 21.2% |

Company Data & Ratios

| | |
|------------------------|--------------------------|
| Enterprise value | \$4,180m |
| Market cap | \$4,319m |
| Issued capital | 159.4m |
| Free float | ~61% |
| Avg. daily val. (52wk) | \$6.5m |
| 12 month price range | \$20.84 - \$32.62 |

Price Performance

| | (1m) | (3m) | (12m) |
|----------------|-------|--------|-------|
| Price (A\$) | 29.71 | 31.28 | 22.86 |
| Absolute (%) | -6.23 | -10.93 | 21.87 |
| Rel market (%) | -0.44 | -5.18 | 18.86 |

Absolute Price


SOURCE: IRESS

Strong 1H22 trading update, Smiggle rebounding

PMV has provided a strong 1H22 update for its retail segment, with EBIT ahead of our expectations. We note PMV's 1H22 period is for the 26 weeks ending 29 January 2022 and therefore includes the omicron flare-up exiting December and throughout January.

The key highlights of PMV's 1H22 retail segment update are as follows:

- **EBIT (pre-AASB 16 basis) expected to be in the range of \$209.5m - \$211.5m:** Note, this includes rent abatements of \$15.5m (i.e. EBIT range of \$194 - \$196m excluding abatements). The EBIT result is comfortably ahead vs BPe of \$165.5m.
- **Resilient sales result, with 1H22 Retail sales of ~\$769m:** On a comparable basis this represents growth of +0.5% vs pc. This is a strong result considering the extended lockdowns through the period & the flare-up of omicron in Dec/Jan. The key drivers of sales include: 1) strong contribution from online with the online channel accounting for ~25% of total global sales; 2) the rebounding of Smiggle's global business as children returned to school; and 3) continued outperformance from Peter Alexander and solid results from Portmans.

Earnings changes

We have updated our 1H22 estimates to reflect the update. Whilst the 1H22 Retail EBIT result represents a material outperformance vs our estimate, we have elected not to carry this forward given continued uncertainties surrounding COVID-19. Net effect is our FY22 EPS increases by +12.2%, although there is no material change in FY23 and FY24. Our 12-month price target increases to \$32.00 (previously \$31.25).

Investment View – Retain Buy, PT \$32.00

PMV has been an outperformer throughout COVID-19, demonstrating resilient sales performance underpinned by market leading omni-channel capabilities that leverage off a wholly owned DC. We see several key positive catalysts over the next 12-24 mths including the continued rebound in Smiggle, the potential launch of Peter Alexander in new offshore markets, plus M&A opportunities. We retain our Buy rating on the stock.

Earnings Forecast

| Jul Year end | 2021a | 2022e | 2023e | 2024e |
|-----------------------------|---------|---------|---------|---------|
| Just Group Sales (A\$m) | 1,443.2 | 1,404.7 | 1,458.0 | 1,529.7 |
| Total Group Revenue (A\$m) | 1,443.8 | 1,402.5 | 1,455.9 | 1,527.8 |
| EBITDA (A\$m) | 535.3 | 482.1 | 467.2 | 489.3 |
| NPAT (reported) (A\$m) | 271.8 | 238.7 | 233.4 | 258.1 |
| NPAT (underlying) (A\$m) | 262.7 | 238.7 | 233.4 | 258.1 |
| EPS underlying (cps) | 164.1 | 149.8 | 146.4 | 162.0 |
| EPS underlying growth (%) | 52.9% | -8.8% | -2.2% | 10.6% |
| PER (on underlying EPS) (x) | 16.5 | 18.1 | 18.5 | 16.7 |
| EV/EBITDA (x) | 7.8 | 8.7 | 8.9 | 8.5 |
| Dividend (€ps) | 80.0 | 84.4 | 86.6 | 96.5 |
| Yield (%) | 3.0% | 3.1% | 3.2% | 3.6% |
| Franking (%) | 100% | 100% | 100% | 100% |
| ROE (%) | 18.1% | 14.7% | 13.3% | 13.6% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

Premier Investments

Company Description

Premier Investments (PMV) is an investment company whose major investment is in clothing retailer Just Group. Just Group operates specialty retail brands Just Jeans, Jay Jays, Portman's, Jacqui E, Peter Alexander, Dotti and Smiggle. Just Group currently operates over 1,200 stores globally including approximately 60 stores in South Africa via a joint Venture. PMV also has major stakes in Breville group (BRG) and Myer Holdings (MYR) as well as c\$170m in cash excluding non-recourse debt held within the Just group.

Investment Strategy

PMV aims to maximise long term growth in capital returns to shareholders through being an owner/manager of Australian focused companies with a particular concentration on the areas of retailing, importing and distributing. We believe PMV's strategy will succeed in the face of increasing competition from global brands in fast-fashion retailing. A key potential catalyst remains the utilisation of their cash and franking credits in the form of an acquisition or capital management. We have a Hold recommendation.

Valuation

Our blended 12-month PT is \$32.00. Our SOTP (EV/EBITDA basis) is \$31.49, while our DCF is \$32.52 (WACC of 9.9%). We take a simple average to derive our price target.

Risks

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.
- **Slowdown in consumer spending and rise in unemployment** - Just Group's product portfolio is mainly clothing and accessories which are highly discretionary items.
- **Rising competition from international peers** – Impingement of market share arising from increased competition from global retailers such as Zara, Top Shop and H&M.
- **Brand positioning and product offering** – It is crucial to keep up with the latest fashion trends and right product mix for the targeted customer group. Failure to do so can result in declining sales and loss of customer loyalty.
- **Unseasonal weather** – Unseasonal weather results in a miss-match between in-store product offering and weather conditions, reducing demand.
- **Movements in the foreign exchange rates** - PMV directly imports 60% to 70% of their products from overseas. The greatest currency sensitivity is to the AUD/USD.
- **Supply chain risks** – Fast-retailing is highly dependent on efficiently getting product to market. Delays in supply chain could result in product missing key seasonal periods.
- **Management risk** - Loss of Just Group Management. Key person risk in PMV Chairman, Solomon Lew who has substantial retail experience.
- **Acquisition risk** – Potential oversights during the due diligence process, strategic fit with broader PMV portfolio, integration risk and multiple.

Premier Investments

as at 27 January 2022

Recommendation
Price
Target (12 months)

Buy
\$27.10
\$32.00

Table 1 - Financial summary

| Jul Year end | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Profit & Loss (A\$m) | | | | | | |
| Just Group Sales | 1,271.0 | 1,216.3 | 1,443.2 | 1,404.7 | 1,458.0 | 1,529.7 |
| ... Change | 7.5% | -4.3% | 18.7% | -2.7% | 3.8% | 4.9% |
| Other rev/income | 0.7 | 30.4 | 0.6 | (2.2) | (2.1) | (1.9) |
| Total Group Revenues | 1,271.7 | 1,246.7 | 1,443.8 | 1,402.5 | 1,455.9 | 1,527.8 |
| ... Change | 7.3% | -2.0% | 15.8% | -2.9% | 3.8% | 4.9% |
| EBITDA | 193.5 | 442.0 | 535.3 | 482.1 | 467.2 | 489.3 |
| ... Change | 12.9% | 128.4% | 21.1% | -9.9% | -3.1% | 4.7% |
| Deprec. & amort. | (30.9) | (216.4) | (178.3) | (178.5) | (181.8) | (182.3) |
| EBIT | 162.5 | 225.6 | 357.0 | 303.6 | 285.4 | 307.0 |
| Net Interest | (3.8) | (14.4) | (10.4) | (3.5) | (0.4) | 3.5 |
| Pre-tax profit | 158.7 | 211.2 | 346.6 | 300.1 | 285.0 | 310.6 |
| Tax expense | (49.9) | (57.4) | (107.7) | (90.0) | (85.5) | (93.2) |
| ... tax rate | 31% | 27% | 31% | 30% | 30% | 30% |
| Associates | 18.9 | 17.7 | 23.9 | 28.6 | 33.9 | 40.7 |
| Minorities/Prefs | - | - | - | - | - | - |
| Underlying Net Profit | 127.8 | 171.4 | 262.7 | 238.7 | 233.4 | 258.1 |
| ... Change | 12.0% | 34.2% | 53.3% | -9.1% | -2.2% | 10.6% |
| Abs. & extras. | (21.0) | (33.7) | 9.1 | - | - | - |
| Reported Profit | 106.8 | 137.8 | 271.8 | 238.7 | 233.4 | 258.1 |
| Assumed AASB16 adjustment to Underlying EBITD | (183.5) | (164.5) | (164.0) | (168.1) | (172.6) | |
| Underlying EBITDA (Pre-AASB16) | 258.5 | 370.8 | 318.0 | 299.1 | 316.7 | |
| Cashflow (A\$m) | | | | | | |
| EBITDA | 193.5 | 442.0 | 535.3 | 482.1 | 467.2 | 489.3 |
| Working capital changes | (15.9) | 134.3 | (76.1) | (34.5) | (4.1) | (4.6) |
| Net Interest Expense | (4.0) | (3.0) | (3.3) | (3.5) | (0.4) | 3.5 |
| Tax | (44.9) | (16.8) | (111.7) | (97.3) | (82.0) | (89.7) |
| Other operating items | 10.1 | (72.9) | 39.3 | (17.9) | 4.9 | 5.6 |
| Operating Cash Flow | 138.8 | 483.6 | 383.5 | 328.9 | 385.7 | 404.1 |
| Capex | (19.6) | (7.3) | (2.9) | (10.5) | (10.9) | (11.5) |
| Free Cash Flow | 119.2 | 476.3 | 380.6 | 318.4 | 374.8 | 392.7 |
| Acquisitions | (7.9) | - | (16.5) | (16.5) | (16.5) | (16.5) |
| Disposals | - | - | - | - | - | - |
| Payment of leases | - | (151.0) | (137.2) | (117.2) | (120.1) | (123.3) |
| Dividends paid | (104.5) | (58.6) | (165.2) | (140.1) | (128.4) | (143.6) |
| Other investing items | 11.9 | 14.0 | 12.1 | - | - | - |
| Equity | - | - | - | - | - | - |
| Core debt increase/(reduction) | (6.0) | (21.0) | - | (44.5) | (109.9) | (109.2) |
| Balance Sheet (A\$m) | | | | | | |
| Cash | 190.3 | 448.8 | 523.4 | 409.8 | 517.7 | 624.6 |
| Receivables | 23.0 | 30.3 | 9.5 | 25.3 | 26.4 | 27.7 |
| Inventories & WIP | 171.2 | 156.6 | 208.8 | 189.6 | 198.3 | 208.1 |
| Other current assets | 20.8 | 10.5 | 17.4 | 17.4 | 17.4 | 17.4 |
| Current Assets | 405.2 | 646.3 | 759.0 | 642.1 | 759.8 | 877.8 |
| Receivables | - | - | - | - | - | - |
| Assoc & investments | 238.7 | 257.4 | 271.4 | 300.0 | 333.9 | 374.6 |
| Fixed Assets (PP&E) | 210.9 | 155.1 | 137.8 | 122.8 | 108.6 | 98.8 |
| Right-of-use Assets | - | 231.8 | 167.1 | 171.0 | 175.1 | 179.9 |
| Intangibles | 826.6 | 826.9 | 827.0 | 843.5 | 860.0 | 876.5 |
| Other non-curr assets | 87.3 | 85.1 | 119.0 | 119.0 | 119.0 | 119.0 |
| Non Current Assets | 1,363.5 | 1,556.3 | 1,522.2 | 1,556.2 | 1,596.6 | 1,648.8 |
| Total Assets | 1,768.7 | 2,202.5 | 2,281.2 | 2,198.3 | 2,356.4 | 2,526.7 |
| ST and LT Debt (incl. Leases) | 167.5 | 450.5 | 384.3 | 231.7 | 235.7 | 240.2 |
| Creditors | 81.9 | 209.0 | 164.3 | 126.4 | 132.2 | 138.7 |
| Provisions | 111.8 | 180.5 | 183.6 | 165.7 | 170.6 | 176.1 |
| Other liabilities | 58.2 | 15.1 | 16.2 | 16.2 | 16.2 | 16.2 |
| Total Liabilities | 419.4 | 855.1 | 748.3 | 539.9 | 554.6 | 571.3 |
| Net Assets | 1,349.3 | 1,347.4 | 1,532.9 | 1,658.3 | 1,801.8 | 1,955.4 |
| Share Capital | 608.6 | 608.6 | 608.6 | 608.6 | 608.6 | 608.6 |
| Reserves | (10.9) | (37.8) | (10.0) | (10.0) | (10.0) | (10.0) |
| Retained Earnings | 751.5 | 776.7 | 934.3 | 1,059.7 | 1,203.1 | 1,356.8 |
| Shareholders Equity | 1,349.3 | 1,347.4 | 1,532.9 | 1,658.3 | 1,801.8 | 1,955.4 |
| Outside Equity Interests | - | - | - | - | - | - |
| Total Equity | 1,349.3 | 1,347.4 | 1,532.9 | 1,658.3 | 1,801.8 | 1,955.4 |
| Core Net debt/(cash) \$m | (22.8) | (302.2) | (376.5) | (421.0) | (530.9) | (640.1) |
| Net debt/(cash) [incl. leases] \$m | (22.8) | 1.7 | (139.0) | (178.1) | (282.0) | (384.4) |

| | |
|----------------------------|----------|
| Price | \$27.10 |
| Recommendation | Buy |
| Diluted issued capital (m) | 159.4 |
| Market cap (\$m) | 4,318.8 |
| Target Price (A\$ps) | \$ 32.00 |

| Jul Year end | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|----------------------------|-------|-------|-------|-------|-------|-------|
| Valuation Ratios | | | | | | |
| Underlying EPS (cps) | 80.4 | 107.4 | 164.1 | 149.8 | 146.4 | 162.0 |
| ... % change | 11.9% | 33.6% | 52.9% | -8.8% | -2.2% | 10.6% |
| PE (on underlying EPS) (x) | 33.7 | 25.2 | 16.5 | 18.1 | 18.5 | 16.7 |
| EV/EBITDA (x) | 21.60 | 9.46 | 7.81 | 8.67 | 8.95 | 8.54 |
| EV/EBIT (x) | 25.72 | 18.53 | 11.71 | 13.77 | 14.65 | 13.61 |
| NTA (\$ps) | 3.29 | 3.27 | 4.43 | 5.11 | 5.91 | 6.77 |
| P/NTA (x) | 8.25 | 8.28 | 6.12 | 5.30 | 4.59 | 4.00 |
| Book Value (\$ps) | 8.48 | 8.47 | 9.62 | 10.41 | 11.31 | 12.27 |
| Price/Book (x) | 3.19 | 3.20 | 2.82 | 2.60 | 2.40 | 2.21 |
| DPS (cps) | 70.0 | 70.0 | 80.0 | 84.4 | 86.6 | 96.5 |
| ... % pay-out | 86.7% | 64.8% | 48.4% | 56.4% | 59.1% | 59.6% |
| Special DPS (cps) | - | - | - | - | - | - |
| Yield (%) | 2.6% | 2.6% | 3.0% | 3.1% | 3.2% | 3.6% |
| Franking (%) | 100% | 100% | 100% | 100% | 100% | 100% |

| | | | | | | |
|---------------------------------------|-------|--------|--------|--------|--------|--------|
| Performance Ratios | | | | | | |
| Revenue growth (%) | 7.3% | -2.0% | 15.8% | -2.9% | 3.8% | 4.9% |
| EBITDA growth (%) | 12.9% | 128.4% | 21.1% | -9.9% | -3.1% | 4.7% |
| EBITDA/sales margin (%) | 15.2% | 35.5% | 37.1% | 34.4% | 32.1% | 32.0% |
| EBIT/sales margin (%) | 12.8% | 18.1% | 24.7% | 21.6% | 19.6% | 20.1% |
| Gross cash conversion (%) | 88.4% | 109.5% | 89.2% | 84.1% | 93.4% | 92.5% |
| Free cash-flow yield (%) | 2.8% | 11.0% | 8.8% | 7.4% | 8.7% | 9.1% |
| ROE (%) | 9.4% | 12.6% | 18.1% | 14.7% | 13.3% | 13.6% |
| ROIC (%) | 9.9% | 15.1% | 24.7% | 20.3% | 18.8% | 19.9% |
| Capex/Depn (x) | 0.6 | 0.2 | 0.1 | 0.4 | 0.4 | 0.5 |
| Net interest cover (x) | 42.8 | 15.6 | 34.2 | 87.4 | 779.5 | n/a |
| Core Net Debt/EBITDA (pre-AASB16) (x) | n/a | n/a | n/a | n/a | n/a | n/a |
| Net debt/equity (%) | -1.7% | 0.1% | -9.1% | -10.7% | -15.6% | -19.7% |
| Net debt/net debt + equity (%) | -1.7% | 0.1% | -10.0% | -12.0% | -18.6% | -24.5% |

| | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Component Contribution | | | | | | |
| Just Group sales rev | 1,271.0 | 1,216.3 | 1,443.2 | 1,404.7 | 1,458.0 | 1,529.7 |
| Other Just Group rev | 0.7 | 1.3 | 0.6 | (2.2) | (2.1) | (1.9) |
| MYR dividend income | - | - | - | - | - | - |
| Corp./elimin. sales | - | 29.1 | - | - | - | - |
| Total Revenue (A\$m) | 1,271.7 | 1,246.7 | 1,443.8 | 1,402.5 | 1,455.9 | 1,527.8 |
| Just Group EBIT | 167.3 | 187.2 | 351.9 | 294.5 | 276.0 | 297.5 |
| Other/corp/elimin. EBIT | (4.8) | 38.4 | 5.1 | 9.1 | 9.3 | 9.6 |
| Total EBIT (ex. Associates) (A\$m) | 162.5 | 225.6 | 357.0 | 303.6 | 285.4 | 307.0 |

| Half yearly (A\$m) | 2H19 | 1H20 | 2H20 | 1H21 | 2H21 | 1H22e |
|------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
| Sales revenue | 591.2 | 732.5 | 514.1 | 785.9 | 657.9 | 770.6 |
| EBITDA | 66.3 | 237.4 | 204.6 | 330.8 | 204.5 | 303.2 |
| Deprec. & amort. | (15.4) | (101.6) | (114.8) | (89.1) | (89.2) | (88.4) |
| EBIT | 50.9 | 135.8 | 89.9 | 241.7 | 115.3 | 214.8 |
| Interest expense | (1.8) | (7.8) | (6.6) | (5.5) | (4.9) | (3.0) |
| Pre-tax profit | 49.1 | 127.9 | 83.3 | 236.1 | 110.4 | 211.8 |
| Tax expense | (16.8) | (37.2) | (20.3) | (74.0) | (33.8) | (63.5) |
| ... tax rate | 34% | 29% | 24% | 31% | 31% | 30% |
| Associates | 6.7 | 13.9 | 3.8 | 16.9 | 7.0 | 19.4 |
| Minorities | - | - | - | - | - | - |
| Underlying Net Profit | 39.0 | 104.6 | 66.8 | 179.0 | 83.7 | 167.6 |
| Abs. & extras. | (21.0) | (5.0) | (28.6) | 9.1 | (0.0) | - |
| Reported Profit | 18.0 | 99.6 | 38.1 | 188.2 | 83.7 | 167.6 |

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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