BELL POTTER

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Cettire Limited (CTT)

Delivering triple digit revenue growth

Recommendation
Buy (unchanged)
Price
$1.79
Target (12 months)
$2.50 (prev.$2.40)

GICS Sector

Retailing

Expected Return	
Capital growth	40%
Dividend yield	0%
Total expected return	40%

Company Data & Ratios	
Enterprise value	$627.2m
Market cap	$680.5m
Issued capital	381.2m
Free float	~25%
Avg. daily val. (52wk)	$1.67m
12 month price range	$0.35 - $2.03

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.75	1.77	0.54
Absolute (%)	2.00	1.13	233.64
Rel market (%)	3.49	5.18	231.71

Absolute Price

SOURCE: IRESS

Strong 3Q trading ahead of BPe

Cettire (CTT) provided a trading update for the first 4 months of 2H23 (Jan-Apr) and sales revenue of $141.3m (+122% on pcp) and Adjusted EBITDA of $7m were beats to BPe. The 4Q has commenced well with April sales revenue +160% and guidance for similar growth rate in May/June. Key metrics including orders, customer adds, average order value, repeat rates and App performance are tracking well. The cash position of $39m reflected the settlement of trade payables from the seasonally larger December quarter, therefore we expect the 4Q seasonality (second largest contribution to annual revenue) to assist the improvement in the cash balance to end the year in a healthy cash position (BPe cash balance ~$51m as of end of FY23e).

Earnings changes

We upgrade our revenue forecasts to incorporate 3Q/4Q23 revenue beats (3Q23 ~25% higher than previous BPe, while 4Q at company guided growth ~30% ahead of previous BPe). This drives upgrades to our FY23 Adjusted EBITDA estimates, while we expect some incremental margin benefits in FY24/25 on marketing investment and fixed operating costs. We now forecast ~160% net revenue growth in the seasonally strong 4Q23 assisted by supportive comps (lower marketing spend/revenue growth in the pcp) which would see 4Q dominating as the highest contributor to the FY23 annual revenue. Our Adjusted EBITDA margins remain at ~5% for 4Q23, as we estimate delivered margins of ~23% and marketing investment at ~10% of net revenue. The net result sees our NPAT forecasts +2%/+15%/+5% for FY23/24/25e.

Investment View: PT up 4% A$2.50, Maintain BUY.

Our Price Target increases 4% to A$2.50/share (prev. A$2.40/share) driven by our earnings upgrades and changes to cash flow assumptions to reflect movements in working capital. We think CTT will continue to outperform its peer group consisting of global luxury retailers and local e-commerce players given its <1% market share in a large and growing market which could remain more resilient than other discretionary categories in a likely recessionary environment. We retain our BUY recommendation.

Earnings Forecast

Jun Year end	2022	2023e	2024e	2025e
Net Sales (A$m)	209.9	412.7	535.9	677.7
EBITDA (Adjusted) (A$m)	(21.5)	27.5	33.5	41.2
NPAT (reported) (A$m)	(16.6)	14.8	21.8	26.8
NPAT (underlying) (A$m)	(15.5)	17.6	21.8	26.8
EPS underlying (cps)	(4.1)	4.6	5.7	7.0
EPS underlying growth (%)	n/a	213%	24%	23%
PER (on underlying EPS) (x)	n/a	38.6	31.3	25.4
EV/Sales (x)	3.0	1.5	1.2	0.9
EV/EBITDA (x)	n/a	22.8	18.7	15.2
Dividend (¢ps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-
ROE (%)	-57.8%	71.6%	49.7%	33.7%

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

2H23 to-date trading update

Cettire Ltd (CTT) provided a trading update today and the key points are (all in A$):

Summary

- Sales revenue (Net Sales) +122% on pcp to $141m for the first 4 months of 2H23 (Jan-Apr 2023) and $101.5m for 3Q23 (+108% on pcp), a ~25% beat to BPe of ~$81m for 3Q23
- Adjusted EBITDA ~$7m for the first 4 months of 2H23 at a ~5% EBITDA margin which is in line with BPe margin of 5% for 3Q23
- 3Q23 EBITDA appears to be a ~14% beat to BPe $4.4m
- April sales revenue +160% on pcp is tracking higher than our forecasted sales revenue growth ~100% for 4Q23
- Cash balance $39m reflecting the settlement of trade payables from the seasonally larger December quarter, therefore we expect the 4Q seasonality (second largest contribution to annual revenue) to assist the improvement in the cash balance to end the year in a healthy cash position (BPe cash balance $55m as of end of FY23e)

Outlook / Guidance

- The Company expects to maintain monthly growth rates at least at this level (~160% on pcp) through the balance of FY23

Quarterly financials

Figure 1 – Quarterly financials

(A$m)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Gross Revenue	18.5	34.3	25.3	46.4	52.1	102.0	70.2	63.5	84.4	158.3	131.8
growth % on pcp					182%	198%	177%	37%	62%	55%	88%
Return rate	21%	24%	27%	28%	26%	26%	31%	25%	22%	23%	23%
Net revenue (sales revenue)	14.6	25.9	18.5	33.4	38.6	75.1	48.7	47.5	66.1	121.6	101.5
growth % on pcp					164%	190%	163%	42%	71%	62%	108%
Adjusted EBITDA*									**5.5**	**11.1**	**5.0**
Margin %									8.3%	9.2%	5.0%

*ADJUSTED EBITDA FOR 3Q23 AS ESTIMATED BY BP BASED ON JAN-APR-23 MARGINS | SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES

Earnings changes and Valuation

Earnings changes. We revise up our revenue forecasts to incorporate the revenue beats to our 3Q/4Q23 estimates (3Q23 ~25% higher than our previous estimates, while 4Q at company guided growth ~30% ahead of previous BPe). Our FY23 Adjusted EBITDA estimates increase driven by our revenue upgrades, while we expect some incremental margin benefits in FY24/25 on marketing investment and fixed operating costs. We forecast ~160% net revenue growth in the seasonally strong 4Q23 assisted by supportive comps (lower marketing spend and revenue growth in the pcp) which would see the fourth quarter dominating as the highest contributor to the FY23 annual revenue. Our Adjusted EBITDA margins remain at ~5% for 4Q23, as we estimate delivered margins of ~23% and marketing investment to remain at ~10% of net revenue. The net result sees our NPAT forecasts +2%/+15%/+5% for FY23/24/25e. We also increase our working capital assumptions to reflect the movements during 3Q23.

Valuation. Our Price Target increases ~4% to A$2.50/share (prev. A$2.40/share). Along with our earnings upgrades, changes to our cash flow estimates reflect our assumptions to working capital driving changes to our DCF valuation.

Figure 2 – CTT BPe changes

Earnings Changes	2023e			2024e			2025e		
June Year End	old	new	% change	old	new	% change	old	new	% change
Revenue ($m)	363.3	412.7	13.6%	464.8	535.9	15.3%	618.4	677.7	9.6%
Adjusted EBITDA ($m)	26.6	27.5	3.2%	28.1	33.5	19.3%	36.9	41.2	11.7%
NPAT (Underlying) ($m)	17.3	17.6	1.8%	18.9	21.8	15.2%	25.5	26.8	5.2%
EPS (Underlying) (cps)	4.5	4.6	1.8%	5.0	5.7	15.2%	6.7	7.0	5.2%
DPS (cps)	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Figure 3 – FY23 earnings preview

YE 30 June A$m	1H22 Actual	2H22 Actual	FY22 Actual	1H23 Actual	2H23e BPe	FY23e BPe
Gross Revenue	154.1	133.7	287.8	242.7	293.5	536.2
% growth on pcp	192%	86%	131%	57%	120%	86%
Sales revenue	**113.7**	**96.2**	**209.9**	**187.7**	**225.0**	**412.7**
% growth on pcp	181%	85%	127%	65%	134%	97%
Delivered margin	24.7	12.6	37.4	47.0	49.5	96.6
Margin % of Sales revenue	22%	13%	18%	25%	22%	23%
Paid acq. expense (ex-Brand inv.)	-18.3	-12.9	-31.2	-14.8	-20.3	-35.1
Margin % of Sales revenue	16%	13%	15%	8%	9%	8%
EBITDA (Adjusted)	**-9.9**	**-11.6**	**-21.5**	**16.7**	**10.8**	**27.5**
%-Margin	-9%	-12%	-10%	9%	5%	7%
% growth on pcp	-307%	373%	-1014%	268%	193%	228%
Underlying NPAT	**-7.2**	**-8.3**	**-15.5**	**10.7**	**6.9**	**17.6**
%-Margin	-6.3%	-8.7%	-7.4%	5.7%	3.1%	4.3%

SOURCE: COMPANY REPORTS, BLOOMBERG, BELL POTTER SECURITIES ESTIMATES

Cettire Limited (CTT)

Company Description

Cettire Limited (CTT) is a global online retailer, offering a large selection of in-demand personal luxury goods via its website, cettire.com. CTT's extensive online catalogue of over 2,500 luxury brands and over 400,000 products (database) of clothing, shoes, bags and accessories is supported by a large, diversified network of suppliers. CTT's business operations are underpinned by a scalable proprietary technology platform that has been developed to acquire large volumes of customers, process and fulfil large order volumes, and maintain large data sets of products from suppliers with a high degree of automation.

Risks to Investment Thesis

Key downside risks to our valuation include (but are not limited to):

- **Consumer sentiment**: CTT's products are discretionary luxury goods and, as a result, sales are highly sensitive to consumer sentiment and may be affected disproportionally by changes in consumers' disposable incomes, or their spending preferences.
- **Suppliers:** CTT does not have exclusive arrangements with branded goods suppliers. There is a risk that CTT may be unable to continue to source products from existing suppliers, and to source products from new suppliers in the future, at favourable prices. Further, the suppliers have their own supply arrangements with manufactures of the relevant products. Risk that manufacturers change their arrangements with CTT's suppliers which may limit the suppliers' ability to sell to CTT or to CTT's customers.
- **Search results ranking and marketing costs**: As an online business, CTT relies heavily on successful online search results, both organic and paid. If CTT is unable to adapt to algorithm changes, the company may suffer financially from a decrease in customer traffic or conversion rates. Also, if competition increases with retailers of the same brands or types of goods that CTT sells, this could increase the cost of maintaining rankings of CTT's ads in its paid search results.
- **Online retail market preferences**: The increase in CTT sales has been driven by a change in consumer buying behaviour towards online retail & away from in-store sales (in part accelerated due to COVID-19). A lessening of consumer preference for using the online retail market would result in an adverse effect on CTT's business & operating results, as it has no physical retail preference to offset a decline in online sales.
- **Competition**: The online retail market is competitive & is subject to changing consumer preferences. CTT competes for customers based on merchandise range, price, reputation, marketing and customer service. CTT's competitive position could be adversely affected by increased competition (both physical retailers and online), entrance of new competitors or a failure to respond to changes in the industry.
- **Reputation**: CTT's offering of brand names is a key factor in attracting customers. Significant erosion of the reputation of, or value associated with, the brand value of products sold by CTT could have an adverse effect on sales, customer loyalty and relationships with suppliers, all of which affect CTT's reputation and performance.
- **Inadvertent sale of infringing products**: As CTT relies on third-party suppliers to deliver goods to customers, there is a risk that branded products offered and supplied through CTT's platforms may infringe IP rights, and expose CTT to allegations/claims/ litigation. Risk that CTT may not be able to enforce its warranties against its suppliers for IP infringements, particularly where a supplier is based in a foreign jurisdiction.

Cettire Limited
as at 116 May 2023

Recommendation	Buy
Price	$1.79
Target (12 months)	$2.50

Table 1 - Financial summary

Jun Year end						
Profit & Loss (A$m)	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Gross sales revenue	28.7	124.5	287.8	536.2	695.9	879.0
. . . Change	295.1%	333.2%	131.2%	86.3%	29.8%	26.3%
Net sales revenue	22.9	92.4	209.9	412.7	535.9	677.7
. . . Change	300.3%	304.3%	127.1%	96.6%	29.8%	26.5%
Adjusted EBITDA	**1.1**	**2.3**	**(21.5)**	**27.5**	**33.5**	**41.2**
. . . Change	-219%	112%	-1014%	228%	22%	23%
Deprec. & amort.	(0.4)	(0.7)	(1.0)	(2.7)	(2.4)	(2.9)
EBIT	0.7	1.7	(22.5)	24.8	31.1	38.3
Net Interest	0.0	0.0	0.2	-	-	-
Pre-tax profit	0.7	1.7	(22.3)	24.8	31.1	38.3
Tax expense	(0.2)	(0.5)	6.7	(7.2)	(9.3)	(11.5)
. . . tax rate	30%	30%	30%	29%	30%	30%
Associates	-	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-	-
Underlying Net Profit	**0.5**	**1.2**	**(15.5)**	**17.6**	**21.8**	**26.8**
. . . Change	-163%	127%	-1409%	213%	24%	23%
Abs. & extras.	-	(1.4)	(1.1)	(2.8)	-	-
Reported Profit	**0.5**	**(0.3)**	**(16.6)**	**14.8**	**21.8**	**26.8**

Cashflow (A$m)	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**
EBITDA	1.1	2.3	(21.5)	27.5	33.5	41.2
Working capital changes	-	11.5	1.2	11.8	8.1	11.8
Net Interest Expense	0.0	0.0	0.0	0.1	-	-
Tax	(0.1)	(0.2)	-	(4.2)	(8.4)	(10.3)
Other operating items	3.5	(0.9)	5.6	6.9	0.2	0.3
Operating Cash Flow	**4.5**	**12.7**	**(14.7)**	**42.1**	**33.4**	**43.0**
Capital Expenditure	(1.3)	(2.7)	(8.4)	(14.0)	(15.0)	(17.2)
Free Cash Flow	**3.2**	**10.0**	**(23.0)**	**28.1**	**18.3**	**25.8**
Disposals	-	-	-	-	-	-
Payment of leases	-	-	-	-	-	-
Dividends paid	-	(3.3)	-	-	-	-
Other investing items	(0.3)	(0.7)	-	-	-	-
Equity	-	36.8	-	-	-	-
Debt increase/(reduction)	**-**	**1.0**	**-**	**2.6**	**(18.3)**	**(25.8)**

Balance Sheet (A$m)	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Cash	36.6	47.1	22.7	50.7	69.1	94.9
Receivables	0.3	1.7	5.4	9.0	11.6	15.5
Inventories & WIP	0.2	0.6	0.9	4.5	5.8	7.7
Other current assets	0.0	0.4	2.0	1.8	1.8	1.8
Current Assets	**37.1**	**49.9**	**31.0**	**66.0**	**88.3**	**119.9**
Fixed Assets (PP&E)	-	-	-	2.8	10.9	21.0
Intangibles	3.4	5.5	12.1	20.5	25.1	29.3
Other non-curr assets	0.4	2.5	11.3	7.1	7.1	7.1
Non Current Assets	**3.9**	**7.9**	**23.3**	**30.4**	**43.1**	**57.3**
Total Assets	**41.0**	**57.8**	**54.3**	**96.4**	**131.3**	**177.2**
Creditors	4.7	18.9	30.7	55.3	67.4	84.9
Provisions	0.4	0.2	0.2	0.6	0.7	1.0
Other curr liabilities	-	0.7	3.3	6.9	6.9	6.9
Current Liabilities	**5.3**	**19.7**	**34.2**	**62.8**	**75.0**	**92.8**
LT debt (incl. leases)	-	-	-	-	-	-
Provisions	0.0	0.6	0.0	0.1	0.1	0.1
Other non curr liabilities	1.3	1.7	2.9	2.4	2.4	2.4
Non Current Liabilities	**1.3**	**2.3**	**2.9**	**2.5**	**2.5**	**2.5**
Total Liabilities	**6.7**	**22.1**	**37.2**	**65.3**	**77.5**	**95.4**
Net Assets	**34.3**	**35.8**	**17.2**	**31.1**	**53.8**	**81.8**
Share Capital	225.1	188.3	188.3	188.3	188.3	188.3
Reserves	(188.5)	(150.5)	(150.6)	(150.6)	(150.6)	(150.6)
Retained Earnings	(2.2)	(2.0)	(20.4)	(6.6)	16.1	44.1
Shareholders Equity	**34.3**	**35.8**	**17.3**	**31.1**	**53.8**	**81.8**
Outside Equity Interests	-	-	-	-	-	-
Total Equity	**34.3**	**35.8**	**17.3**	**31.1**	**53.8**	**81.8**
Core Net debt/(cash) $m	(36.3)	(47.1)	(22.7)	(50.7)	(69.1)	(94.9)
Net debt/(cash) [incl. leases] $m	(36.3)	(47.1)	(22.7)	(50.7)	(69.1)	(94.9)

Price	$1.79
Recommendation	Buy
Diluted issued capital (m)	381.2
Market cap ($m)	680.5
Target Price (A$ps)	$ 2.50

Jun Year end						
Valuation Ratios	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Underlying EPS (¢ps)	0.1	0.3	(4.1)	4.6	5.7	7.0
. . . % change	n/a	n/a	-1409%	213%	24%	23%
P/E (on underlying EPS) (x)	n/a	n/a	n/a	38.6	31.3	25.4
EV/EBITDA (x)	n/a	267.0	n/a	22.8	18.7	15.2
EV/EBIT (x)	842.4	372.1	n/a	25.3	20.2	16.4
EV/Sales (x)	27.4	6.8	3.0	1.5	1.2	0.9
NTA ($ps)	0.08	0.08	0.01	0.03	0.08	0.14
P/NTA (x)	22.02	22.47	132.99	64.33	23.75	12.94
Book Value ($ps)	0.09	0.09	0.05	0.08	0.14	0.21
Price/Book (x)	19.82	19.03	39.59	21.87	12.65	8.31
DPS (¢ps)	-	-	-	-	-	-
. . . % pay-out	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	-	-	-	-	-	-

Performance Ratios	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Gross revenue growth (%)	295.1%	333.2%	131.2%	86.3%	29.8%	26.3%
Net revenue growth (%)	300.3%	304.3%	127.1%	96.6%	29.8%	26.5%
EBITDA growth (%)	n/a	111.6%	-1014.2%	227.8%	22.0%	23.0%
Delivered margin (% net revenue)	28.1%	23.8%	17.8%	23.4%	23.5%	23.4%
EBITDA margin (%)	4.9%	2.5%	-10.2%	6.7%	6.2%	6.1%
EBIT margin (%)	3.3%	1.8%	-10.7%	6.0%	5.8%	5.7%
Gross cash conversion (%)	411.5%	552.1%	68.5%	168.4%	124.8%	129.3%
Free cash-flow yield (%)	0.7%	1.9%	-2.2%	5.8%	3.7%	4.8%
ROE (%)	1.5%	3.3%	-57.8%	71.6%	49.7%	33.7%
ROIC (%)	3.2%	-17.7%	105.9%	-98.3%	-113.3%	-292.4%
Capex/Depn (x)	n/a	n/a	n/a	n/a	n/a	n/a
Net interest cover (x)	n/a	n/a	100.0	n/a	n/a	n/a
Core Net Debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a	n/a
Net debt/equity (%)	-105.7%	-131.8%	-131.9%	-163.1%	-128.4%	-106.6%
Net debt/net debt + equity (%)	n/a	n/a	n/a	n/a	n/a	n/a

Half yearly (A$m)	**1H21a**	**2H21a**	**1H22a**	**2H22a**	**1H23e**	**2H23e**
Gross Sales revenue	52.7	71.7	154.1	133.7	242.7	293.5
Returns rate	*23%*	*28%*	*26%*	*28%*	*23%*	*23%*
Net Sales revenue	40.5	51.9	113.7	96.2	187.7	225.0
Delivered profit	11.3	10.6	24.7	12.6	47.0	49.5
Margin %	*28%*	*20%*	*22%*	*13%*	*25%*	*22%*
Marketing cost	(3.9)	(7.9)	(25.9)	(17.1)	(16.4)	(22.1)
Cost % of Net Sales revenue	*-10%*	*-15%*	*-23%*	*-18%*	*-9%*	*-10%*
Other costs	(2.7)	(5.2)	(8.7)	(7.1)	(14.0)	(16.7)
Cost % of Net Sales revenue	*-7%*	*-10%*	*-8%*	*-7%*	*-7%*	*-7%*
Adjusted EBITDA	**4.8**	**(2.4)**	**(9.9)**	**(11.6)**	**16.7**	**10.8**
Margin %	*12%*	*-5%*	*-9%*	*-12%*	*9%*	*5%*
Deprec. & amort.	(0.3)	(0.4)	(0.5)	(0.6)	(1.7)	(0.9)
EBIT	4.5	(2.8)	(10.4)	(12.1)	14.9	9.8
Interest expense	0.0	0.0	0.0	0.2	-	-
Pre-tax profit	4.5	(2.8)	(10.4)	(11.9)	14.9	9.8
Tax expense	(1.0)	0.5	3.2	3.6	(4.2)	(3.0)
. . . tax rate	23%	18%	31%	30%	28%	30%
Minorities	-	-	-	-	-	-
Underlying Net Profit	**3.5**	**(2.3)**	**(7.2)**	**(8.3)**	**10.7**	**6.9**
Abs. & extras.	(0.8)	(0.6)	(1.1)	(2.8)	(2.8)	-
Reported Profit	**2.7**	**(2.9)**	**(8.3)**	**(11.1)**	**8.0**	**6.9**

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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